

Q3 2015 Earnings Call

Company Participants

- Carlos Medeiros

Other Participants

- Nicolás Langlois

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen and thank you for waiting. At this time we would like to welcome everybody to BRMALLS' Third Quarter 2015 Conference Call. Today with us, we have Mr. Carlos Medeiros, CEO; and Mr. Frederico Villa, CFO.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during this company's presentation. After that there will be a question-and-answer session for analysts and shareholders followed immediately by another session for journalists. At that time further instructions will be given. Today, we have a simultaneous webcast that may be accessed through the website, www.brmalls.com.br/ir. The slide presentation may be downloaded from the website as well. There will be a replay facility for this call on the website for a week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions for BRMALLS' management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstance that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of BRMALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Carlos Medeiros, who will begin the presentation. Mr. Carlos Medeiros, you may begin your conference.

Carlos Medeiros {BIO 15324538 <GO>}

Good morning. Thank you for participating in our call for third quarter 2015 results. As we're going through this call, there is a brief presentation on the website for this call. So starting the call, we had net revenues of R\$355 million in the quarter with a growth of 5.6%. If we exclude the impact of our asset sales, our net revenue grew by 7.4% in the third quarter.

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Our NOI in the third quarter reached R\$331 million, increasing 6.4% with a margin of 92% in the quarter. Our same-property NOI grew by 7.5% compared to the third quarter of 2014. Our adjusted EBITDA was R\$282 million in the quarter, increasing 7% over the same period of last year. Our adjusted EBITDA margin stood at 79.4%. If we exclude the asset that was sold in the last 12 months, our adjusted EBITDA grew by 8.4%. Our adjusted net income in the quarter reached R\$95 million with a margin of 27%, and our adjusted FFO was R\$98 million with a margin of 28%. Our same-store rent in the quarter went up by 7.4%, while our same-store sales grew by 2.3% in the quarter. Our store occupancy cost reached 11.4% in the quarter, of which 6.9% was related to rent and 4.5% to common and marketing costs.

The occupancy rate of our malls in the quarter reached 96.8% and our malls with occupancy higher or equal to 98% account for over 70% of our NOI. Both late payments and net late payment decreased 110 basis points in the quarter reaching 6.5% and 2.6% respectively.

Lastly, we concluded the divestment of our entire stake in West Shopping and Center Shopping, both in Rio de Janeiro for a total R\$161 million, and also the sale of 44% stake in Shopping Paralela, in the state of Bahia for R\$156 million. These sales represent a decrease of 3.4% in our owned GLA.

With that, I conclude this brief presentation of the third quarter 2015 highlights. And Frederico and myself are now available to answer any questions you may have. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. Our first question comes from Nicolás Langlois from LarrainVial. You may proceed.

Q - Nicolás Langlois

Hello, guys. Thank you for taking my question. I would like you to clear up a little bit about the main reason behind the increasing EBITDA margin and the decrease in net income, please? Thank you very much.

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Nicolás. Good morning. In terms of EBITDA, as you know, I mean historically, our EBITDA margin has been around 79% in investment we had in this quarter. When you look through the numbers, you would see that we've been able to grow net revenues slightly faster than expenses. Taking into consideration the fact that we have sold assets over the last three years, and we've been able to keep the EBITDA margin that will keep the costs and expenses under control growing that penetration.

In terms of the net income, the main issue that we had in this quarter was the significant devaluation of the real against the dollar which creates a non-cash expense on our

perpetual debt. So the principal of the perpetual assets values create a significant expense - non-cash expense in the quarter. We have hedged the coupons which reduces that the impact because we have non-cash gain on the hedge. But still, since the principal is higher than before and the half-year coupons that we have hedged, there is a non-cash impact. If you take that impact out, we would have a - we showed that in the release, we would have adjusted net income close to R\$100 million.

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Q - Nicolás Langlois

And what about the fair value of properties? There is a loss in terms of fair value, with respect to the net income?

A - Carlos Medeiros {BIO 15324538 <GO>}

We normally revise the fair values on the second and on the fourth quarter. So in this quarter, we didn't have an impact from that.

Q - Nicolás Langlois

Perfect. And my last question will be a more general one. How do you see could be the impact of the Brazilian economic situation in the company? We have been looking at decreasing same store-sales. Same-store revenue is more (9:41). Do you think same-store rents could have a reduction in the following quarter, or maybe that we would see a reduction in occupancy rate. How do you see the industry and the impact of the macro figures in the corporation? Thank you.

A - Carlos Medeiros {BIO 15324538 <GO>}

I mean, we've had a decline in GDP in Brazil for about the last five years. We've had a peak in 2010. And since then, I think with one exception in one year, GDP in Brazil has been going down one year after the other. Last year, it was close to zero. And this year it will be a negative, I mean (10:34) say around 3%. And when you look at it on a quarterly projection, the worst quarter would be the third quarter and the first quarter of this year. Having said that, we just released results from the third quarter and what you can see is a slowdown in same-store sales, which is a reflection of the reduction in retail sales in Brazil, a reduction in consumption and economic activity.

Going forward, what we see is a continuation of the current scenario and a reflection of the economic activity and consumption in Brazil. I think, I mean it depends on the scenario that you have for those (11:34) in 2Q, you have a scenario where consumption will continue to decline and the economy and GDP will continue to decline, we're probably going to see further slowdown in same-store sales. And today, I think the economists have conflicting views on those things. So I think it really depends on the scenario that you have.

But clearly, there is a slowdown in our third quarter numbers. It's not as significant as some analysts expected. I mean, we've always said that the mall business is a resilient business. So it performs better than the general retail market in a slowdown, and I think we're proving the case, but still the slowdown is there in the numbers.

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Q - Nicolás Langlois

Okay. Thanks a lot.

Operator

This concludes the question-and-answer session. At this time I would like to turn the floor back to Mr. Carlos Medeiros for any closing remarks.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you for participating in our third quarter conference call results. We remain available at our Investor Relations department if you have any further question. Thank you. Have a good day.

Operator

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

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