

Q1 2017 Earnings Call

Company Participants

- Ruy Kameyama, Chief Executive Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BR Malls Conference Call. Today with us, we have Mr. Ruy Kameyama; Frederico Villa; and Derek Tang.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the Company's presentation. After that, there will be a question-and-answer session for analysts and shareholders. At that time, further instructions will be given. (Operator Instructions)

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

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

Ruy Kameyama {BIO 16672412 <GO>}

Good morning. Thank you for participating in our first quarter 2017 conference call. This is my first call as the new CEO of BR Malls, and I'm pleased to be here with you.

As you know, the Company experienced important changes in its management recently. In February, our new Board of Directors was elected with four new members. The new Board is aligned with the Company's management and shareholders, and adds financial, real estate, mall and corporate governance contribution. That succession process was concluded last week, May the 2nd.

I joined BR Malls during its foundation in 2007 having served as the company's Chief Operating Officer for almost 10 years. I'm succeeding Carlos Medeiros who led the

company for the past 10 years. We all thank Carlos for his dedication and important contributions from our Company's history.

After three years of deep recession, the Brazilian economy is beginning to show the first signs of recovery. Improvement in consumers' confidence in retail sales, in the level of household indebtedness, inflation getting closer to the Central Bank's target and successive cuts in the interest rates, which are expected to end the year in single digits.

Up until the last quarter of last year, we've had noticed few improvements from the better macroeconomic scenario in our results. However, in this quarter, we began to see the improvements of some of our main financial and operational metrics, especially for the performance in the end of the quarter in March.

Regarding the operational indicators, we had the best same-store sales of the last four quarters and improved the level of same-store rent that reached 6.5%, an increase of 120 basis points in comparison to first quarter of last year. We also highlight the maintenance of our occupancy rate in a level in line with the previous quarter and the reduction in the occupancy cost for retailers when compared to the same quarter of last year.

The highlight of the quarter was the month of March, when we had a same-store sales of 3.3%, a same-store rent of 6.3%, and a growth close to 5% in the vehicles flow, as well as improvements in the growth rate of our main revenues, that increased 4% in parking, 5% in the minimum rent revenues, which signals the return of sales and the potential return of a stronger consumption.

We ended the quarter with an adjusted EBITDA of BRL223 million and a margin of 67%. Our margin was impacted by a higher level of provision for doubtful accounts above our historical average, resulting from the delinquency of last year. However, net late payments in the month of March was 2%, 30 basis points improvement over the same period last year.

We know that we will continue with a negative pressure of the provision throughout 2017. However, we will continue our efforts in the recovery of our balances from prior periods and in reducing late payments. Excluding the effect of the provision for doubtful accounts, the adjusted EBITDA would be BRL259 million, a negative change of 3.2% when compared to the same period of the last year and a margin of 78%.

In line with our portfolio recycling strategy, in March this year we announced the sale of our 33% interest in ItauPower Shopping for BRL107 million. After reducing its gross debt and selling its stake in ItauPower, the Company reduced its indebtedness, closing the quarter with a net debt of BRL4.2 billion, 11% lower than at the end of the first quarter last year and 6.5% lower than last quarter, the lowest level since the first quarter of 2014.

Due to the reduction of our indebtedness and the compression of the main indexes of our debt, our adjusted FFO had an increase of 142% over the same period of last year, reaching BRL80 million in this quarter. Part of the portfolio mix improvements has brought

results to the productivity of our malls. In this quarter, once again, we had an increase in sales per square meter of 1.6% and a growth in rent per square of 1.2%.

And finally, yesterday, we filed with CVM, a public offering in Brazil and applied a private placement elsewhere of common share with an estimated amount of BRL1.7 billion, which is approximately \$533 million. I cannot comment about this offering or about future expectations on this call. All the information regarding the offering is available at CVM's website.

I'd like to thank you all and reaffirm that we are increasingly confident that the worst has past, and the Company's best days are yet to come. We are prepared for the next cycle of BR Malls. Thank you, and we are now available to answer your questions.

Questions And Answers

Operator

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

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you all for participating in our first quarter 2017 conference call. If you have any further questions, we are available here at your disposal. Have a nice day.

Operator

Thank you. This thus concludes today's presentation. You may disconnect your lines at this time, and have a nice day.

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