Y 2021 Earnings Call

Company Participants

- Eduardo Langoni, Chief Financial and Investor Relations Officer
- Ruy Kameyama, Chief Executive Officer

Other Participants

- Analyst
- Fanny Oreng
- Gustavo Cambauva
- Pedro Roberto

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Welcome to BR Malls' Conference Call to discuss the Earnings Results for the Fourth Quarter of 2021. Please note, that all participants will be on listen-only mode during the company's presentation, soon after which, we will begin the Q&A session when further instructions will be provided. (Operator Instructions).

Before proceeding we would like to clarify that forward-looking statements stated during this conference call regarding the company's business prospects, projections and operating and financial targets are based on the beliefs and assumptions of BR Malls management as well as on information currently available to the company. Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions because they refer 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 can affect the company's future results and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to hand it over to Mr.Eduardo Langoni, our CFO. Mr.Langoni, please continue.

Eduardo Langoni {BIO 22105877 <GO>}

Thank you. Good morning to everyone. Thank you for taking part on our earnings results conference call for the fourth quarter of 2021. I will start my presentation highlighting the results of Q4 and subsequently, I will give the floor to Ruy, that will comment on our position regarding the proposal that we received from Aliansce. And by the way, yesterday, this was published through material effect. So we are going to talk about this.

We will start our presentation on Slide 2. 2021 represented an important year to recover our results and to improve BR Malls' strategic agenda. After the impact of the second wave of the pandemic during the last quarter of 2021, we presented indicators that present strong operational recovery reflecting the quality of our portfolio and our strong execution capacity.

Total sales indicate this is a recovery of commercial activity. We ended during the fourth quarter 1.6% above fourth quarter of 2020. In 2022, we see total sales 8.6% above 2019. Same-store SSR totaled 24% of growth when we compare to the same period of 2019, totaling 39% on February of 2022. This shows the withdrawal of the discounts that were granted in past periods. We have a historical record in net late payments. We ended Q4 with minus 1.8%. This shows the recovery of open. Occupancy rate continues growing throughout the quarter, totaling 97.9%, a historical record in the past eight years.

Now when we see Slide 3, you can see the metrics of a number of new businesses. We had a significant growth in our loyalty program at the end of 2020 when we exceeded 331 million members and we had a 26% of GMV in the shopping's in the program. There's strong engagement of our consumers in these initiatives.

Now when we know granularly the preferences of our consumers through our loyalty program, we become more assertive when we commercialize media and more relevant for brands. We are the only company in the sector that scales business media that is growing and gains more relevance quarter-on-quarter. The revenue, for me, is a good avenue of growth. We totaled on Q4 an increase of 29.7% when we compare it to Q4 of 2019, demonstrating the incorporation of Hello. Now the media revenue represented 6.5% of our gross revenue, and we believe that in the upcoming years, this will be 20% of the company's revenue.

Now on Slide number 4, you can see the constructive potential of BR Malls for multipurpose. Throughout this week, we announced a partnership with the Vitacon that will develop residential buildings and totaling around 210 square meters of private area. This partnership involves 20 towers and seven malls of our portfolio that will provide value to the company through new revenues in addition to increase and qualify the flow of people that go to our shopping malls. On the upcoming slide, you can see the main financial indicators. The net revenue in Q4 of 2021 totaled BRL 373 million. This is an increase of 40% when we compare it to Q4 of '20 and 6.9% when compared to Q4 of 2019.

We would like to highlight the evolution of minimum leasing that ended the quarter at levels above 2019 17.5%, and NOI that grew 12.7% vis-a-vis 2019. Now the adjusted EBITDA was BRL 189 million. If we exclude the delivery center, the adjusted EBITDA would be -- we would be 61.9%. The adjusted FFO totaled BRL 61.6 million, a margin of 16.5%.

Now I will hand it over to Ruy, who will continue with our presentation.

Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Langoni. Good morning to everyone. Now this call will focus on important points regarding our future perspectives. As you can see, we see the end of 2021 as a tipping point where COVID was left behind, and we are strong and our figures show this. And what reassures us are the perspectives when we see the future. I would like to remind you that the thesis that we have pursued in the past years is that we believe that the world is undergoing a rapid transformation driven by technology. And what this is touches shopping malls. E-commerce takes us aboard[ph], because we believe that there will be winning malls that will be highly desirable like our shopping malls, and there will be indifferent shoppings in this work that will face difficulties and will not create economic value.

Within this context, we have to increase the value proposition to our customers through new solutions and new businesses. And we believe that the differential is not only the amount of shopping malls, but yes, more scale with quality and new solutions. This is the agenda, the winning thesis in the long run, and we have been pursuing in the past years.

Now when we see the future, we believe that we will face good cycles in the upcoming years with strong organic growth, growth of top line, growth in EBITDA and more focus on margins, more expense control, and, with the revenues coming, that we will have margins above 70% of EBITDA. And we will deleverage and we will be able to recover our FFO.

Now when we think about new business and new solutions, we've tested a number of actions, and we want to attract our customers through loyalty and media. In media, we're the only company that has scale and an out-of-home strategy which is clear, and we create synergies with loyalty. Media is the avenue of revenue that grows most with us and loyalty. Well, this will give a new meaning to the shopping malls in the future.

Now when we think about M&A, you know properly our M&A is an excellent option. BR Malls grow, leveraging the market opportunities. And as we are a corporation, we have a flexibility to scale and to -- this was when the capital market was favorable -- and we have flexibility to create M&A and we are analyzing all opportunities here. Specifically, during the current moment, we are discussing a number of alternatives that would be companies combination. One, we are reassured with our strategy, this will give value to our shareholders. But at the same time, we will explore combination problems -- programs if this creates more value to our shareholders.

And when we go to the next slide, when we see the proposal from Aliansce. Yesterday, BR Malls' Board rejected unanimously this new proposal, because on last Sunday, Valor said this was a definite proposal, there's no space for negotiation. We believe that our responsibility to our shareholders is why we rejected this proposal. We will see the time line, so we can remember the last event, we were approached by Aliansce on December last year for a combination. We initiated conversation, and this news was leaked, which generated a material effect on December 21. And on January 4, we received a formal proposal that was made public on January 14. In the interim, we studied the proposal with legal financial synergy consultants, and we rejected this proposal on Sunday.

Once again, we were surprised with the press with the financial terms reviewed on Monday. We saw Aliansce material effect with the financial term and on the 16th, we received another formal proposal. Our Board reviewed the study with help of external adviser and they unanimously rejected it on the 17th. We are based -- we rejected it because of four main points that I will show. Number 1 would be that we understand that this is an acquisition of BR Malls without paying for the control premium.

Now the controlling block from Aliansce would become the controlling block of the new company with 23% or slightly above 23%. We learned through the adviser that Aliansce intention is to transfer their shareholders and we -- and this was not announced in the proposal. It is clear that in this negotiation, the control of BR Malls will go to the hands of new controlling block. This is not a merger. This would be an acquisition. As this would be an acquisition, we should receive a control premium to the shareholders. And in the past -- due to the past years, we see a premium of 48%. Other reference Rede D'Or with SulAmerica, 49%. As an example, as one similar, our property where (Inaudible) paid a premium of 33% on the price.

And today, BR Malls is a true corporation. We do not have a defined controller, and this guarantees a strategic value and great options for our shareholders. We can dilute, buy back shares, split to attract investors to our model. This has a strategic value and it has to be considered.

Now our next slide. The second point would be our cash that represents 25% of the acquisition when our share is undervalued. Pre-COVID, our share was above BRL 19, the NAV per share around BRL 16, and recent reference from a portfolio that is negotiated in the private market, the sale of Centero Verlange that was carried out at a sales cap rate of 6.7%, while we trade at a 12% cap.

Another important point of the relevant portion in cash -- all debt regarding this BRL 1.85 billion remains anew for the shareholders of BR Malls inherit the debt. And in this cash portion, you reduce the benefits of BR Malls' shareholders because of the synergies and you crystallize the exit at a low price and you cannot capitalize on the new prices. The three points would be substantial difference between the portfolio of both companies. The BR Malls shoppings have a significantly higher productivity in sales, rent and NOI. And this table is clear, the sales per square meter in 2019, the last year before COVID, were 13.5% superior and NOI per monthly square meter based on 2019 almost 30%, 28.5% higher than the BR Malls portfolio. The BR Malls are more dominant and have greater exposure to higher income classes and in more attractive cities. And BR Malls is the only one in the industry with a media business at scale, and the most advanced in loyalty. All of these factors must be taken into account, they're relevant when we think about the present and future evolution of the business.

Now our next slide. Another point that we took into account would be risks and points of attention. Number one would be that we are -- this is a sector that is facing structural challenges caused by e-commerce. And we need to be careful with non-core more vulnerable shopping malls, and we believe that the Aliansce portfolio has points that we have to pay to attention. BR Malls has been working properly to -- we want to reduce our exposure to non-core shoppings. We've sold 15 non-core malls in the past 5 years. Now

Aliansce's proposals, they disclose which non-core malls represent 23% of GLA that -- well they were considered non-core. And if you consider the original GLA of the merger of Sonae, these malls represent almost 50% of this merger.

Another important point is that we have to understand that 75% of this acquisition will be paid through shopping malls. The Aliansce Shopping Malls are currency of payment and they represent almost 75%. And there is no sales historic, another shopping by shopping. We have fully disclosed in order to price and to evaluate the risks in a proper fashion.

And at last, it is important to highlight the capture of synergy is more focused on BR Malls. We extract more value from our asset, and a metric would be the capacity to convert NOI. The NOI metric over sales in BR Malls is 7.8% and -- is 8.7% and the other is 7.8%, which shows a relevant figure when we are going to consider figures.

Now to bring to an end. We have to stress[ph] that the management of BR Malls is not against the concept of business combination, but we're strongly against the financial terms proposed. And we are ready to negotiate an asset combination as long as the value offer to the BR Malls shareholders reflects the fair value of the company. Thank you.

With this, we bring our presentation to an end and we continue at your disposal for the Q&A session.

Questions And Answers

Operator

(Question And Answer)

We will now initiate our Q&A session. That can be done over the phone. (Operator Instructions) Our first question is from Fanny Oreng, Santander.

Q - Fanny Oreng {BIO 21102709 <GO>}

Good morning, Eduardo and thank you for your presentation. I have three questions and I will try to be brief. Number one would be the board rejected Alliance's proposal and today we saw the news that Alliance bought more than 10% of BR Malls. When I see (inaudible) publication and they say if the deal is not approved, they want to have an active participation in your board.

I want to understand what can you do from the legal point of view to protect the minority shareholders that do not agree with the deal having Alliance on your board, I believe this is not of interest of the shareholders that do not agree with the terms that were presented. I would like to understand this point because this could damage the corporate strategy of the company.

Number two, now regarding the merger. What about your NOI? What is the interesting point of this NOI? What could be the potential synergies. And which allow Alliance assets could create value to BR Mall? I'm talking about BR Mall shareholders that would become partners of Alliance shares. And to talk about the individual assets of BR Mall. In the results, we saw the performance that assets were excellent. And so, but we see the Southeast ramping up their operations. Could you give us more color regarding the sales during the first quarter? And how do you see sales in the region of Rio De Janeiro that holds important assets from your company?

A - Ruy Kameyama {BIO 16672412 <GO>}

Okay. Thank you for your question. Now, first question would be would be the Alliance's statement on the media that they will be have an activist position within BR Malls and that they would be close to 10%.

We don't know why they would do that. We believe that it's strange. It's weird. The shareholders are not interested in this and we don't believe that alliance will follow this pathway because I believe that Alliance has an activist position in BR Malls, these are two competitive mall and they will bring conflicts of interests. So there is a matter of competition, a matter of conflict of interest and this would be a waste of time for everybody. I believe that Alliance and their management are serious.

They value governance and this would go against what they -- this announce regarding ESG. So I don't think that they will follow activism -- this activism pathway, and two, have an independent board made up by excellent board members, with excellent governance, excellent rating through years as and five of our seven board members have been with us since 2017 and 2018.

And the CPPIB that is the greatest shareholder of Alliance that -- during one time was our greatest shareholder voted in favor of electing these board members. I don't believe that CPPIB[ph] would embark in a conflict-of-interest situation. I believe that this would be something very difficult to happen, this would be something totally new in the capital market. This would be negative for governance. I do not believe that this will be the unfolding.

Q - Fanny Oreng {BIO 21102709 <GO>}

Could you adopt a measure in order not to hamper your minority shareholder? How can you protect your minority shareholders?

A - Ruy Kameyama {BIO 16672412 <GO>}

If this happens, we will adopt all necessary measures. This is serious. We -- it would be extremely damaging for BR Malls minority shareholders and we will adopt all measures to protect our minority shareholders from these conflicts of interest.

Now regarding your next question that is synergies which is always an important matter when there are combinations. Point number one is that we see the merits and mergers and business combinations and we believe that there are synergies within our studies, we believe that synergies and costs are clear here and easier to capture and the synergies regarding to the media business where we are at an advanced stage and we see something positive now leasing revenue synergies are more difficult, because these are two matured companies in addition to having a slower capture call because in terms of new leasing or lease renewal this has captured time frame that is slower because of the business.

We do not believe in the financial synergies not only because we believe that the debt cost of the company does not reflect its size, but yes, the level of leverage and its rating. And in our specific case, we believe that this diminishment in leverage meant an improvement in grading and the improvement in the debt costs happens -- will happen regardless any merger. We announced the sale of Uberlandia Center Mall. And with these funds, we will use it to deliver (inaudible) the generation of cash.

We are going to going to pay of the perpetual debenture in the upcoming months. That is one of our major negative points there is no financial upside, because the scenario already greets us this difference and there are also certain concerns regarding lack of synergies or risks of negative synergies one would be new coal company would emerge with 1.8 billion of additional leverage with a high silica level.

So this would be the upside would be compromised because of the increase of our indebtedness and this costs a lot. And the second aspect is that we have to be careful with non-core shopping malls, that and new COVID have to deal with this because not only because of the antitrust agency and we have to elaborate a new portfolio for new goal, and for this we would have to sell non-core assets in the difficult market moment when we think about the upcoming two years all our portfolio recycling was based on real estate fund. We took advantage of liquidity -- of our liquidity window and this window will be closed in the upcoming two years.

So it's difficult to find a purchaser that wants to run the risk of having a portfolio with vulnerable assets. And time is not in favor of -- time can play against these assets. So these are things that we have to consider and this is why we insist in disclosing information so that we and shareholders can understand if the risks and negative synergies that can come from an non-core portfolio and your next question as well.

You asked about the assets that can make a difference. I believe that alliance has some excellent assets. Yes. We do see the strength of a number of assets that can contribute. This is normal in any merger and we're absolutely sure that from our size we have excellent shopping malls that will add a lot to any merger to any portfolio and Alliance also has good malls. I'm not going to not mention them, but yes, there are assets that would contribute we have there are merits here. Your third question regarding the sales performance and how we see this -- it is interesting because this is not happening in a uniform fashion.

You've realized the center was portfolio driven by agribusiness, the northern portfolio. Even in the South are growing faster than the Southeast portfolio. What we've seen is that as consumers are more at ease and going back to their normal day by days, they go out, they go to school, they go to university, they go to work to their offices, they work in the industries, they go to the shopping mall in the major urban centers home office in hybrid work is more present than in regions outside of the Southeast region. When you go to some cities in the interior there is no home office.

People are going to work, there's practically a 100% of circulation nonetheless in Rio de Janeiro and Sao Paulo, you see more hybrid modalities and this impacts the shopping mall and also we have the matter of perception of risks or care. Here we have a number of shoppings that are more exposed to the elderly like the (inaudible) shopping.

This is why the recover is gradually, but what we see throughout the months all of them going back to more normal -- a region really comes back quicker than other traffic is going back, entertainment movies, the launching of blockbusters, people are circulating in shopping malls this month's well they flexibilize the use of masks and Rio and Sao Paulo. Everything points out to normalization in different regions, but at different times.

Q - Fanny Oreng {BIO 21102709 <GO>}

Thank you, Ruy. Then, just a follow-up from your second question. Will you open when you have operational synergy?

A - Ruy Kameyama {BIO 16672412 <GO>}

No, we have our internal studies that analyze valuation returns and valuations as financial studies we are not going to disclose the synergy studies right now. And as we mentioned that the definite proposal, well there's no room for negotiation. So this is something that we're going to leave behind.

Q - Fanny Oreng {BIO 21102709 <GO>}

Thank you very much, Ruy.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you Fanny.

Operator

Our next question from Pedro Roberto, Bradesco BBI.

Q - Pedro Roberto {BIO 6553497 <GO>}

Good morning, Ruy, Eduardo. Thank you for your presentation and taking my question. We have a question regarding SG&A that has been increasing because of maturity. How do you expect the evolution of the G&A? More regarding the evolution of the revenues and digital initiatives? Thank you very much.

A - Eduardo Langoni {BIO 22105877 <GO>}

This is Langoni speaking. Thank you Pedro. In our release we disclosed the expenses, would be core expenses and new businesses although we see everything as a whole this is a concept of -- as a concept of platform, but it's important to give you more visibility.

Now of course, the new business initiatives are in a different stage mainly when we think about digital, but what we see in media is an increase in revenues we have a media business, which already is providing as revenue, and in 2022, we will receive the contribution of throughout the entire year, that will increase our media revenue, this will be a year where we will favor the growth of a Hello[ph] both and CapEx investments, but also OpEx, so what we will see in 2022 will be an increase in new initiatives in terms of expenses, but mainly because of the Hello[ph] contribution, this is a period where we will strongly accelerate our business.

But the -- but as of 2023, we will go back to normal levels. And what we have prioritized is to continue controlling our expenses. This would be our core, right? So we expect control in core in 2022 and new initiatives, but the increase will be because of Hello[ph]. When we think about digital, we will be very diligent. This is an important matter for our strategy and will provide us excellent benefits to our business. And we will focus strongly on our loyalty program as well.

Q - Pedro Roberto {BIO 6553497 <GO>}

Thank you very much Eduardo, and good morning to everyone.

Operator

Our next question Gustavo Cambauva of BTG Pactual. Mr.Gustavo, you may continue.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning to everyone. I would like to post two question. Going back to the potential merger with Alliance. Ruy, in your presentation, I felt that the main point of your rejection is valuation. And you showed us a number of NAV metrics cap rating the historical premium that would be paid in similar transactions. And I would like to understand what would -- what metric would you expect?

And then this would be what kind of valuation would make you think about this operation that -- or something that would make sense to you from the strategic point of view. What is a price reference for you? What -- and that made you reject this deal? And you also in the beginning said that BR Malls is still analyzing other alternatives of possible business combinations. I know that you have certain limitations to disclose a lot of information, but what kind of profile are you looking for?

Because Alliance advanced in the process they made proposals and nothing appeared from another side. I'm talking about potential buyer. I would like to know up to what -- is there a likelihood of something happening or are we just talking about initial talks here?

A - Ruy Kameyama {BIO 16672412 <GO>}

Okay, Gustavo[ph]. Thank you for your questions. Well number one in terms of price reference. I would like to clarify our vision on this we are not against the merits and we are not against the deal, we're totally against the price that was offered, you are right there is a price issue here that is clear. It is as every time we talk about a merger it seems we want the pizza to grow, the pie chart to roll, there are synergies, there are risks but there is a net synergy.

Now -- well it depends on how you break out the pie from the starting point and it has to be fair and it represents the contribution from each parts, because shareholders are different. This is -- so this is our position, we do see merit in mergers, but prices and the exchange has -- is essential to give value to our shareholders. And here we are defending the BR Mall shareholders, we are not going to give you a price here. We've showed you a number of references that show how we see this when we talk about the future of our company where we are sound we are not going to see a screen prize as a reference when the share price is close to the all-time low. This is not what the shareholders expect from the management.

We are here for a long-term project and we have to see what the company's intrinsic value is? And we have reference or shares were traded -- were traded at BRL19, there is an NAV difference. There is a reference, there is differences from sales side analysts and we have to build it like a bridge. There is a block of a premium that is a control premium. There is another block here that would be a premium because portfolio different.

There is a premium block that would be optionalities because we have an advanced strategy of loyalty media. So, and we are the only ones that attained the scale and this has a long-term value. There are a number of ways of seeing these, but the reference of BRL9.11 is far from any of the references that we mentioned.

Now, regarding your second question that would be other alternatives. My first comment is the following. The company is not desperate to make a deal. The other way around we are reassured with while we have dealt our figures from the fourth-quarter shown this, we've given you some figures of February and this shows the trend and the trajectory that shows that we will have excellent three years for our traditional businesses and the new businesses that will become more relevant in the upcoming three years, so to carry out a deal in a rush with this price, doesn't make sense.

The company is in desperate, we don't have to deliver the company at a low price. We're not desperate. Yes, we will analyze other alternatives with calm it's not exactly what you said that there are no other alternatives. No, we are also -- there are other possibilities and we are reassured in terms of timing because we are okay with all the alternatives of the moment because we are undergoing an important moment of recovery.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you, Ruy. Thank you for your answers. Just a follow up to price. Obviously, I didn't want you to give us an exact price, but I would like to understand.

A - Ruy Kameyama {BIO 16672412 <GO>}

What I meant was when we see the metrics of NAV or the traded share that is at a low. This is valid for Alliance. The dynamic is very similar to all the enterprises of the sector. All the shares are being traded below a fair value. And as the merger would be carried out exchanging shares.

Perhaps with this, you could capture this through another offer. If at the end, you believe that as the merger is linked in valuation and not controlled, this would damage the future synergy capture, this is what I meant. So, I don't want to go into details because we are not negotiating here. I will limit to my concept.

The first concept that we visualized is that this is an acquisition, this is not a merger and this is an acquisition of different companies with different portfolios with different strategy and everything has to be assess, this is a role as a manager to defend the interest of our minority shareholders of BR Mall. And you properly know how this works. Yes, there are a number of metrics. Yes. Here we see the currency would be shares, cash, but this is a complex matter and I believe that this is not the right moment to discuss this.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. Alright. Okay. Thank you very much for your answers.

Operator

Our next question Alberto (inaudible) UBS. You may continue.

Q - Analyst

Good morning and thank you for taking my question Ruy, Langoni. Could you elaborate on the margin gain that would be 70% until the end of the year. And your PVD that can improve that is above normal levels. Where could we see this we see this gain of margin. And also opportunities with (inaudible) as they are not listed in the market, could there be more difficulty? Because the spread of cap rate are different. And for example, you divested in the Uberlandia Shopping Mall.

A - Ruy Kameyama {BIO 16672412 <GO>}

Alberto, number one would be margins. What we see is that this will be driven by a strong revenue of recovery when you see our history 2019 and 2018, our margins were at this level. Of course, expenses have increased driven by new business. Nonetheless the recovery of revenues will allow us to recover and to gain operational scale and this dilutes the expenses and we will go back to a high-end sound margin in the upcoming years. Now, I don't want to embark this because this is a negotiation that is underway.

This is just to show you that there are different options in the market. And different way of seeing this would be the following. BR Malls is a company that has an excellent portfolio, it has clear evolution strategy. It's executing, delivering and growing now naturally any deal, any match. Well, people are interested about this and want to talk about this because when you are part of a BR Mall platform, well this adds value, this adds scales. This present synergies with excellent governance with no shareholders agreements.

Everything here is very objective and we follow the best governance rating and Brazilian capital market. This is why we're attractive. It was just an example of alternative, but there are as well other conversations underway that we haven't made public. Therefore we are reassured here and sometimes the deals have different formats. Really I'm not going to talk about differences of cap rating because you know properly how this works, there are different solutions from different scenarios and we study all of them and we see what can give more value to our shareholders.

Q - Analyst

Perfect. Thank you very much.

Operator

As we have no further questions. I will hand it back to our speakers for their final remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you very much for taking part in our call. Langoni were at your disposal. Thank you very much and good morning.

Operator

The BR Malls conference call has come to an end. We wish all of you for your participation and have a good day.