Q3 2013 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer and Investor Relations Officer
- Rodrigo Krause, Investor Relations Superintendent

Presentation

Operator

Good afternoon. Welcome everyone to Multiplan Third Quarter 2013 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando D'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Rodrigo Krause, IR Superintendent; and Mr. Hans Melchers, Planning Manager.

Today's live webcast and presentation maybe accessed through Multiplan's website at www.multiplan.com.br/ir. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Mutiplan's remark there will be question-and-answer session. (Operator Instructions) Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan Management and on information currently available to the Company.

They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking assessments.

Now, I will turn the conference over to Mr. Rodrigo Krause in the name of Mr. Peres. Mr. Rodrigo, you may begin your conference.

Rodrigo Krause

Good morning, everybody. Good morning, ladies and gentlemen. It is with pride that I present to you Multiplan's third quarter 2013 results. The Company's 17 shopping centers presented sales of R$2.7 billion. A growth of 19.3% compared to the same period last year and 8.4% in same-store sales.

The Company's good performance this quarter resulted in a gross revenue of R$270.8 million with the 21% increase. EBITDA reached R$163.6 million, an increase of 22.8% and a net income of R$86.7 million with a growth of 20.4% all when compared to the same period in 2012.

If we take into consideration the challenging year we're living. The strong performance presented shows the solidity of our development and consolidates Multiplan as a Company with great capacity to develop and operate shopping centers. I call your attention to the latest developments delivered, JundiaiShopping, ParkShopping Campo Grande and VillageMall, which are about to complete a full year in operation this first quarter, leading to a more efficient comparison. So far, the performance of these developments has been in line with our expectations and our budget.

It is the capacity Multiplan has to develop the best properties for consumers in the country. This is in addition to the efficient capital structure that gives us the peace of mind to continue to invest in the development of new shopping center and expansions. In the last four years, we have invested R$2.97 billion, which will result in a 71% growth of our owned GLA between the end of 2010 and that of 2013.

We delivered on schedule the Morumbi Corporate Towers, one of the most modern corporate development in Sao Paulo. We invested 483.6 million to incorporate both towers with a total area of 74.2 thousand square meters of GLA integrated in the near future to Morumbi Shopping. In two months, the development has reached almost 50% of the areas leased to major international corporations.

We are also building two towers in BarraShoppingSul. A condo office and a residential building with services. The sales are close to 100% mark. This shows the success of our mixed-use strategy, our margins are normally significantly higher 25% to 30% more than those of Real Estate developers. We will inaugurate Parque Shopping Maceio this coming November 6th, together with Aliansce. This is Multiplan's first project in the North East of Brazil.

In May 2014, we will deliver the seventh expansion in BarraShopping in Rio and are about to deliver the eight expansions in RibeiraoShopping. This is Multiplan, always refining and anticipating the needs of our customers. We acquired a land plot in Sao Caetano do Sul, an area right across from Parkshopping Sao Caetano with 11.6 thousand square meters, the plot has a floor area ratio of seven times.

In September, we acquired a land plot in the City of Canoas, state of Rio Grande do Sul with 93.6 thousand square meters with the FAR, Floor Area Ratio of 186 thousand square meter. We will develop a shopping centers with approximately 38 thousand square meters of GLA, which will be the third, the Company will own in the South region. The City has the highest GDP per capita in the whole state of Rio Grande do Sul, and the second best family income behind only second only to Porto Alegre. The last two assets mentioned do not have their value reflected on our balance sheet and represent a great growth potential and results for the Company. It also reveals Multiplan's appetite to invest and build good developments in places where there are opportunities.

I would also like to point out the acknowledgments to our Company. The market value is the highest among our publicly traded tiers in the shopping center business. We also are the only Company in the engineering construction sector with an investment grade in the global scale of Standard & Poor's. We were also awarded the prize for being the best

Company in the construction and engineering segment by the newspaper, Valor Economico.

All of this is the result of our commitment to doing the best shopping's in the country. I'd like to thank everyone that is party to this continues process of management, development and growth of our shopping's and our Company. I also thank our shareholders and analysts that follow us and for their trust in this ambitious plan to Multiplan into an ever better Company for consumers.

I now hand over the floor to Armando d'Almeida Neto who will continue with other details of our financial performance. Thanks.

Armando d'Almeida Neto

Thank you, Rodrigo. Thank you Mr. Peres. Ladies and gentlemen, good afternoon. Good morning in fact. Let's have the presentation with the operational performance on page 3. Our shopping centers sales increased at 19.3%, 3 times higher than the National Retail Index. Same store sales increased 8.4% to R$1,497 per square meter per months. The highest percentage increase in 2013 and the second highest is second quarter 2011, up in quarter sample.

During the third quarter, sales of stores with size up to 1,000 square meters were of R$2,083 per month. In a same store base comparison, please note that what is in the presentation in the same store base comparison, but in a nominal overall. And I'm using the same store base so we can be a better proxy for the 12 month comparison as well.

Stores with up to 1,000 square meters of GLA sold R$2083 per month in same store base comparison or R$26,076 per square meter in 12 months. While stores up to 200 square meters presented monthly sales off R$2,359 during the third quarter we're almost R$30,000 per month -- per square meter in 12 months, R$29,260 per square meter per month.

The highlight in sales during the third quarter were RibeiraoShopping with a 24.8% increase ParkShoppingSaoCaetano in its second year of operation with a 16.2% increase and shopping

Santa Ursula with 13.6% increase. Shopping Vila Olimpia presented a sales increase of 11.5%. Current [ph] operations by moving forward to page four, where the top part of the, of page shows that on the, on the top left shows that all the different 10 segments presented same-store sales growth and that satellite stores led the way of the growth. Let the growth base that satellite stores lead the growth base as you can see on the picture on the top center.

The significant increase presented by services and food segments. I'm talking about both fast food and restaurant grew many areas provide evidence of the importance of those segment of these segments in the more mix becoming an important consumer attractions store for shopping centres.

Just to illustrate if consider the last five third quarters the normal of stores, if consider the last five third quarter nominal sales the food segment grew by 134%, a CAGR of 18.5% compared to 13.6% CAGR of total sales, equivalent to 89% total increase.

In the bottom part of the page, the picture you see that average of the occupancy rate in the third quarter. During the third quarter go rise up 98.1% compared to the second quarter 97.6%. So, 50 basis points increase. The end of the quarter occupancy rate was up 98.8% that is 70 basis points better than the quarter's average. Village Mall with 9.5% occupancy and Shopping Vila Olimpia with 94.4% occupancy were the highlights. Occupancy, of course, remained basically unchanged at 13% against 13.1% in the third quarter of 2012. Store turnover was reduced to 1.1%, down from 1.6% a year ago, when turnover as a percentage of GLA is consider.

In fact the percentage figure was reduced in terms of turnover from 1.6 to 1.1 due to the new significant GLA increase last year. Just to exemplify, in this third quarter alone 98 tenants were replacement. If you look at 12 month figure the number will be -- the figure would be close to 300 tenants that were replaced. This is a proof of the intensive Mall and Mixed management creating growth opportunities for the Company.

Moving forward to the Company, moving forward to page 5, there was in terms of the share of the revenues that was no important change, no significant change, in terms of revenue breakdown. Where rental revenue is our main source with 57.2% share. The minimum or fixed rent represented 88% of the rental revenues. A point to emphasize is the services revenue as you can see on the picture on the top right, which in nine months 2013 was pretty close to the G&A expenses with a total in G&A expenses.

And on the 12 month comparison as you have in the presentation. The services revenue surpasses the G&A expenses. As you can see on the picture below, all shopping center related revenues presented a increase to the third quarter last year.

On page six, quarter-on-quarter rental revenue was up by 28% or an additional R$36.4 million. The new malls rent per square meter presented a significant upside when compared to the already consolidated one's (inaudible) versus R$119. Oh, I'm so sorry. R$69, a mix of properties in English here. My apologies, R$69 compared to R$190 of consolidated loss. With the picture in the bottom of the page, we point out the 11.4% same-store rent increase. The third quarter together with the first quarter this year was the highest increases in six quarters, since the second quarter of 2012. The real increase over IGP-DI effect was of 3.5% or 5.2% over the inflation measured by the IPCA, that is the Brazil equivalent to the CPI. On the third quarter rental analysis, we highlight RibeiraoShopping with a 21.9% increase of the expansion open last year, New York City Center with 17.8% increase, ParkShoppingBarigui with 11.7% increase and BH Shopping with 11.6.

While in the nine month figure, we have once again RibeiraoShopping and New York City Center were with 15.7 and 13.9 respectively, and ParkShopping in Brazil with a 13% rental increase. The performance of Morumbi Shopping in BarraShopping school where momentarily impacted by the changing mix and the consequent grace period, while the new tenants get ready to open. If you remember from the second quarter call, we will talk about the intensive change in mix and we mentioned again now and malls like BarraShopping and Morumbi Shopping and also BarraShopping RIO were the most impacted.

So I just want to explain the difference between the nominal rent increase and the same-store in this case. You have seen that what in Morumbi Shopping, the rental revenue increases was off 3.7%. The same-store rent was off 8.5%. In BarraShopping the rental revenue was 7.1% in the third quarter, 13 were this same-store rent was of 16.7%, just a reminder BarraShopping it's going to the fifth anniversary in operation now in mid-November.

Moving forward to the page -- to results on page 7, as expected the land [ph] of shopping center expenses presented a strong increase over the third quarter 2012. Especially due to the expenses reversal that happen on the same quarter last year. For analysis purpose only if we exclude the third quarter 2012 expanse reversal, the increase would have been of R$6.4 million or 31%.

As you can see on the second to third quarter evolution our goal is to keep bringing those expenses down as the recently delivered the most Ursula can consolidate. In spite of the significant shopping center expenses increase that reduces the NOI margin. NOI plus key money grew 21.8% in third quarter '13 or 22.6% in nine months '13 with R$540.4 million compensated by the higher rental, parking and key money revenues.

The NOI per share clearly emphasizes the properties result to the shareholders. On page eight, we will start with G&A expenses. The third quarter '13 G&A expenses was reduced by 4.6%. While in the nine-month figure, we have a 5.2% increase. The G&A good result in 2013 is mainly explained by lower NOI recovery expenses. The shopping Centre EBITDA that doesn't consider net revenues, the both features on the, in fact the shopping Centre EBITDA on the bottom part of the left, the bottom part of the page.

The Shopping Centre EBITDA that doesn't consider net revenues, expenses and costs related to real state for sale surety increase at 28 -- 28% during the third quarter '13 with a small margin increase of 28 basis points to 71.6%.

For the nine-month period shopping Centre EBITDA reach R$464.1 million, 26% above the same period last year and we had a 123 basis points margin improvement at 72%. When excluded the sale of Morumbi business Center that happen in the first quarter last year. The nine-month consolidated EBITDA in 2013, increase at 31.2%. We had R$471.9 million an additional 350 basis points in margin at 66.5% moving to page 9, regardless of the financial leverage increased from 2 to 2.6 times net debt to EBITDA and the higher shopping center expenses, we achieved a 20.4% increase in net income in a 22.9 increase in funds from operation FFO.

In nine months and excluding the Morumbi business center sales last year, the net income increased by 26.7% summing up to R$227.4 million. And the FFO grew 22% to R$337.4 million. The FFO per share is also an important indicator of value creation to shareholders.

On page ten, we would discuss about indebtedness and the strategy we use to fund our products. In short, by mid 2011 we practically had no debt index to that Brazilian inter-bank rate or CDI. By then the index represented 1% of our gross debt. With the signs indicated that an easing cycle was approaching and remember we're back in mid-2011. We shift all of the new loans in financing to CDI index to that. In a few quarters after, the share of indebtedness link to CDI move it to almost 50% of the total debt.

The bottom line was clear, the normal funding costs would come down as the link drops any it reach 3.75% per annum. The SELIC side was to give up on the indebtedness duration. On the second quarter this year, we have revived our strategy choosing to have the new financing linkages to TR. The share of indebtedness in TR that on June of this year represented a 30.9% moving to 42% in September. During the third quarter, we also signed a new R$400 million financing throughout year with monthly installment at a cost of TR plus 8.7% per annum.

And we also renegotiated the terms of three TR contract, that sums up to R$506 million creating savings of R$6.7 million in product value. All in we reduced our TR funding cost front 9.71% per annum in the second quarter 2013 to 9.02% per annum in this quarter. A 69 basis points of rate reduction. We also increased the weighted average tenant from 45 to 55 months and reduced the spread between the nominal debt cost to Selic right the spread that we paid on top of the Selic rate as a reference from 190 basis points spread in the third quarter of 2012.

Where 120 basis points in the second quarter 2013 to 34 basis points spread in these third quarter 2013. Let's now shift to the development side, so starting our comments from page 11, the top picture shows in a simple way the significant investment we made along these past three years, as was mentioned by Mr. Peres it was close to R$3 billion.

Actually R$2,972 million invested in three years alone 2011, 2012 and 2013 this was the capital expenditures plus the land acquisition that is on the inventory size of our balance sheet. When compared to December 2010, our own GLA should present an expressive increase of 71% at the end of this year. Last year alone, we had a 28% own GLA increase and for 2013 against 2012, we expect another 20% addition.

Just with the, what is under construction, what it was announced yet in a couple months that we have until the year-end, right. At present, we have full progress in the construction. We have the shopping Shopping Maceio expansion at RibeiraoShopping and by BarraShopping in Rio and the towers for sale in BarraShopping store.

We'll address each one of the products signing within more big corporate on page 12. As planned we managed to deliver the more on big corporate on time in third quarter '13. It is due to our corporate earnings for lease with 74.2 thousand square meters and stabilized revenue of about R$97 [ph] million. We're close to 50% of the area already leased to large international corporations. The region is quickly becoming a new business hub in the City of Sao Paulo, creating a consumer traffic increase that will very likely have a positive impact on Morumbi Shopping.

In the following page number 13, there are features of expansion seven, in RibeiraoShopping, which will delivered in August this year. In addition to the new stores this area has also a well known, gym center with 3.2 thousand square meters. And a convention center with 3.5 thousand square meters plus new restaurants, a 1,200 cars spots in deck parking and a suspended garden with the almost 4,000 square meters of area.

We now go all the way Northeast [ph] to Parque Shopping Maceio on page 14 with 37.5 thousand square meters of GLA. Our first investment in the region and within operations gather for next week. With 93% of the GLA leased the shopping will be open with growth opportunities already planned, like our future expansions and mixed-use products. This project will be managed by the Aliansce, our partner in this new project.

On page 15, and back to Ribeirao Preto down South at Sao Paulo or beside Sao Paulo. We show a picture of expansion eight in RibeiraoShopping. That is gathered to open in the beginning of December this year or maybe late November of this year. There will be 60 new operations, many of which are coming to RibeiraoShopping prior to the very first time. These will make RibeiraoShopping, GLA wise one of the largest properties of our portfolio. A very complete Mall which regards to repair, services and entertainment are consolidated and yet modern mall mixed use and even more comfortable for customers.

On page 16, we show the seventh expansions of BarraShopping Rio de Janeiro with a new 628 underground parking area and 9500 square meters of GLA, of which 5,000 square meters in retail, they are pretty much older leases, and 4,500 square meters of corporate floors for lease.

Furthermore, we have the mixed-use towers at BarraShopping in Porto Alegre, South of Brazil on page 17, on which one is the condo office building with 92.7% already sold, and the order of residential services building with 99.5 of its units sold, we have just one unit missing, this to be sold in residential [ph] building. The product has a PSV, a potential sales value. Thank you very much, of R$249.8 million.

To conclude, and on page 18, we would like to show some of the announcements of land acquisition that we have done, indicating a new world cycle that we are dedicated to and working hard at. The highlights goes to the land broadening Canoas phase represent the show [ph] and as a reminder, those are not the only land available, we have many different development options ahead of us.

Thank you all for your attention and let's start the Q&A session. Operator, back to you.

Questions And Answers

Operator

Thank you. (Operator Instructions) This thus concludes our question and answer session for today. I will now turn the conference over to Mr. Armando D'Almeida Neto for his final remarks. Mr. Armando, you may give your final considerations now.

A - Armando d'Almeida Neto

I want to thank you all very much for your attention, for your support. We remain available for any questions that you have on the third quarter release or any other question or company, and once again thank you very much. Have a good afternoon.

Operator

Thank you. These conclude today's, Multiplan's third quarter 2013 earnings conference call. You may disconnect your lines at this time.