Q4 2012 Earnings Call

Company Participants

- Armando D'Almeida Neto, Chief Financial Officer
- Rodrigo Krause, IR Superintendent

Presentation

Operator

Good afternoon. Welcome everyone, to Multiplan's fourth quarter 2012 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 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 Multiplan remarks, there will be a question-and-answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press star zero to reach the operator.

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, but 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 statements.

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

Rodrigo Krause

Good afternoon. Ladies and gentlemen, I want to thank you for being here today and begin with the disclosure of our fiscal year and fourth quarter 2012 results.

We have lived through what may have been the most challenging and dynamic period in 37 years in Multiplan's history. We inaugurated three new shopping center greenfields, Jundiai Shopping, Parkshopping Campo Grande, and Village Mall. We concluded yet another expansion in RibeiraoShopping, and two new corporate floor buildings for lease, ParkShopping Corporate in Brasilia. Furthermore, we doubled our interest in Shopping Vila Olimpia, Sao Paulo.

In total, we invested about BRL1.3 billion, the highest investment in a single year in the history of our company. These properties added 116,000 square meters of owned GLA to our portfolio, an increase of 28%. We delivered 650 new stores between anchor and satellite stores. With five new projects under development, our network of stores is close to earning the 5,000 commercial operations mark.

We continue to develop another shopping center greenfield, ParkShopping Maceio. New expansions in BarraShopping and in RibeiraoShopping in addition to the two new towers for lease in Sao Paulo, the Morumbi Corporate. We also hold a land bank of more than 600,000 square meters in many cities in which we have developments, which have an excellent mixed-use potential, a strategy we've adopted several years ago.

Furthermore, the existing shopping center portfolio has an expansion potential of over 150,000 square meters in consolidated areas and then attractive prospective for returns. Contrarily to what is seen in our market, we strive to invest within planned deadlines and schedules. We value the principle of trust between tenants and investors and we respect the expectations with regards to returns on investments made.

I would like to highlight some numbers I consider more relevant in our results. Our net profit this fourth quarter reached the mark of BRL128.4 million, that is 18.8% over that of the same period in the previous year. For the full-year, net profit was BRL388.1 million, a growth of 30.1%. EBITDA presented an increase of 28% over the same period last year.

We ended the year with an EBITDA of BRL615.8 million, BRL600 million was the mark adopted internally as a challenge. Gross revenues for the fourth quarter reached BRL266.7 million or 25.3% over that of the corresponding period in 2011. For the full-year, growth was 41.2% surpassing the BRL1 billion mark.

Sales in our shopping centers totaled BRL3.2 billion in the fourth quarter of 2012 alone, an increase of 15.2%, compared to the same period in the previous year. The accumulated sales for the full-year reached a total of BRL9.7 billion or 14.9% higher than in 2011. We are keeping a sustained growth rhythm that confirms our confidence in the performance of the retail sector in general and of our developments in particular. In short, in a period in which the company has allocated all its energy to develop this project when expenses are increasing more than proportionally we have nonetheless been able to present extremely significant results. A few thoughts to share with you about our strategy now. We have chosen to invest significantly in the western area of Rio de Janeiro where a set of neighborhoods gyrate around Barra da Tijuca and Campo Grande. It is the city's expansion frontier with 41% of the population or 2.6 million inhabitants, but growing at twice the speed of the city.

We now have four shopping centers ParkShopping Campo Grande, VillageMall, New York City Center and BarraShopping, which together add up to more than 1,000 commercial operations, and cover all income segments, and consumption patterns. This increases significantly our presence in one of the regions that grow the most in Brazil, and establishes our leadership and commercial capacity in the retail chain mainly in Rio, the second largest state in retail in Brazil.

We continue firmly in the pursuit of our successful strategy of developing mixed-use developments, which allows us to extract the maximum synergy between the elements that compose it. Today, we have mixed-use complexes in operation or under development in Sao Paulo, Ribeirao Preto, Porto Alegre, Brasilia, Rio de Janeiro and Maceio. In cities that are becoming more and more complex and jammed, these integrated work to home, leisure, and consumption complexes, we call it mixed-use, provide more convenience and saves time to run all your errands in one place undoubtedly a valuable argument and an ever more important variable in cities where urban traffic is a problem.

A good example of this strategy is Parque Shopping Maceio that we are developing in the Northeast. This is a pioneering development that we are doing with Aliansce, a shopping center company. In addition to our shopping center with 37.8000 square meters of GLA along with already planned expansions of 8.2000 square meters, the project includes future developments of about 164,000 square meters for a hotel, residential towers, and condo offices.

With the privileged location in the growth sector of the city, it will become the largest real estate complex in that capital city. In Barra da Tijuca, the most dynamic growth area in Rio, we continue to add value to the already most important high-end commercial district developed by a company in Brazil. We have yet another expansion underway BarraShopping, which had sales -- and BarraShopping, which had sales last year reaching BRL1.6 billion, will get 9,500 square meters in new GLA, with stores and office space. The BarraShopping complex will reach shortly the mark of 800 stores or 125,000 square meters in GLA. This giant in the heart of Barra is connected with the Centro Empresarial BarraShopping office building complex with its 173,000 square meters of built area and the recently inaugurated VillageMall, conceived to service the higher-consumption and entertainment standards.

The success of VillageMall to us is especially relevant. It made evident the interest of famous international brands in the Brazilian retail market, particularly in Rio de Janeiro and Barra da Tijuca. Its inauguration coincided with an article published by the New York Times, in which it highlights Rio as the most important tourist destination of the year and quoting our VillageMall as the icon of this new phase in the life of the city.

Reaffirming our strong conviction in Multiplan's growth and future and that of the retail market in Brazil is why we are beginning a public offering of 9 million shares corresponding to about 5% of the total outstanding. Part of this offering should be subscribed by the controlling shareholders. This is Multiplan, a Brazilian company with mixed-use projects, focused on quality, innovation and performance, prepared to take full advantage of the growth potential of retail in our country.

I thank you all for your attention, especially to our co-workers present here, investors and analysts for your dedication and trust. I will ask now Armando D'Almeida Neto to continue with the presentation of the results. Thank you all.

Armando D'Almeida Neto

Thank you, Rodrigo and thank you, Mr. Peres. Ladies and gentlemen, good afternoon. We are pleased to present results achieved by Multiplan during the fourth quarter and the full-year of 2012.

Before we start the presentation, let me just make a brief comment on the active order/request that we filed and announced this morning.

We are evaluating 100% primary share offering of 9 million shares at the base offer, having the Hot Issue and Green Shoe -- also of being the Hot Issue and Green Shoes, also 100% primary. The issuance will have a priority booked to shareholders of the company of 3 million shares where the controlling shareholders will participate with amounted estimated in BRL100 million. The main reasons to start this offering is to provide Multiplan with a stronger capital structure along with the continuity of our development plan with new products to attain the growing demand of retail space in shopping centers.

We believe that this offering may speed up Multiplan's growth strategy. We apologize, in advance, is in compliance with the rules and regulation in place, we cannot answer your questions on the active offering.

Let's have a presentation then. Moving to page three, we highlight the company's owned GLA growth of 28.3% in 2012 alone. We've two acquisition through Brownfield investment, but mainly through the opening of three new shopping centers.

On the fourth quarter alone, we delivered a 108,000 square meters of owned GLA and a condo office building, mixed-use with our RibeiraoShopping that gets even more complete. The 2012 CapEx was another record broken for a single-year investment. BRL1.344 billion almost two-fold of the BRL689 million even in 2011.

From page four to page nine, we got pictures especially for you on this call that did not have a chance to personally read them. Starting with the JundaiaiShopping, Sao Paulo, ParkShopping, CampoGrande on the following page, and also VillageMall on page six, both in Rio de Janeiro. The expansion number six of RibeiraoShopping, the two-tower corporate building integrated through our ParkShopping in Brazil.

And last but not least, on page nine, Centro Professional Ribeirao Shopping that together with expansion six recently mentioned, makes the 31-year-old shopping center even more complete, and in new retail operations and mixed-use products. RibeiraoShopping sales during the fourth quarter last year were up by 20.5%.

In a short wording [ph], in 2012 alone, we delivered 116,000 square meters of GLA, 650 new stores and 600, 700 new parking spaces.

Moving forward to page 10, where we have detailed the development plan already announced for 2013. We are adding another 105,000 square meters, or in other words, another 20% own GLA increase through two expansions, both indeed in RibeiraoShopping, a new shopping center called ParkShopping Marceio in a partnership with Aliansce, and two office towers for lease across the street of MorumbiShopping in Sao Paulo.

We also have in construction the 7th Expansion of BarraShopping in Rio de Janeiro planned for the first part of 2014, and two towers for sale, one is a residential tower and the other is a condo office, both mixed-use to our BarraShoppingSul in Porto Alegre. Once again, more pictures starting on page 15 and to page 11 and to page 15.

Moving forward to page 16, where we will comment on the operational performance. We believe that our centers presented a very strong sales performance. In line with 2011, the same area sales went up by 8.9% as you can see on the bottom part -- bottom right part of the picture. While the same-store sales grew 8.4% or 80 basis points better than the 7.6% figure of 2011. The percentage growth gets even stronger when taken into consideration the nominal amount of sales per square meter and we have brought a few examples on the top part of the page.

The first one on your left picture, retailers have been with us since 2007 and remained until 2012. Both anchors and satellite stores that have been in our portfolio since, again, 2007. They presented growth in sales of 50.2% or a CAGR of 8.5%, translated into sales of BRL17,340 per square meter.

Based on the picture on the bottom part of the page, and especially to the faster growth phase presented of same area sales over same-store sales indicate us that retailers that came to our malls in between 2007 and 2012 should have presented an even higher sales performance. One example that is not in this presentation is in the earnings release, when considering stores with 1,000 square meters of area only in 2012, we presented sales growth of 10.5% over 2011 with sales per square meter of BRL25,242. And going to further smaller areas, say 200 square meters that you have in the presentation right under the top part in the middle, that by way represented, give or take, a third of our portfolio area, presented a 12.4% increase, reaching sales per square meters of BRL27,899.

It is important to highlight that the examples here are based in our entire portfolio and not on high producers most only, that would certainly bring even higher figures than the one presented. The normal sales growth last year was of 14.9% and all of our most presented phase increased in both fourth quarter and the full-year of 2012.

On page 17, we highlight the occupancy cost and the store turnover that remained in line with 2012 -- 2011, while rent losses were reduced to 0.4% out of the 1.3% in 2011. Even after -- on the bottom part of the picture, even after the -- of 108,000 square meters in new areas delivered in the fourth quarter, the occupancy rate in the last quarter was up 98.1%. Just to highlight that we started the year -- first quarter with occupancy rate of 97.2%, having average in 2012 of 97.9%. So, a improvement throughout the year even or in spite of the significant GLA increase that we brought in the fourth quarter.

Moving to the next page, number 18, we surpassed BRL1 billion mark in gross revenues. Actually, it was BRL1.048 billion or 41.2% higher than in 2011. The real estate for sale income line increased its normal share of gross revenue, because of the sale of Morumbi Business Center that happened in the first quarter last year.

Please note that the increase of the real estate for sale also impacted the consolidated margins as we will show in a few pages ahead, we saw lower margins, but more income or net income. The new areas delivered during the fourth quarter once again will bring the positive effect for many of the income lines, where we highlight rental, services and parking that adds 6,700 new parking space now to a total of 45,200 parking spaces in our 17 malls in operations.

On the next one, page 19 and with a little bit more details on the rental revenue. When added a straight line effect, the rental revenue grew by 18.4% in 2012, adding an extra BRL89.6 million to the rental revenue line. And in line with or as per the comment made on page 16, in which we analyzed the same-store sales, the percentage variation of same-store rent gets leveraged when considered a nominal amount of rent per square meter.

In other words, don't just take the percentage variation, just look based on what, what is the nominal amount that is there and how the growth represents. The same operation there, where in our portfolio, in 2007 and 2012, presented 54.2% increase in rent, reaching BRL106 per square meter, representing a CAGR of 9%.

The picture on the top right shows that Multiplan's same-store rent has been posting historically solid positive results when compared to the inflationary index. Average same-store rent growth over IGP-DI adjustment effect, the index that we use to adjust our lease agreement was since the 2007 until 2012, was 4% per annum and 4.4% over the IPCA, that is equivalent to the CPI inflation, the consumer inflation in Brazil.

So, we are being constantly or at least, in the picture here since 2007, moving faster our same-store rent than the inflationary index. Just a quick note highlighting the continued real growth delivered year-after-year in a five-year series.

Well, let's start talking about results and moving to the next page, number 20. Shopping center expenses were increased by 28.9% over 2011 due to the new areas added, and also by the one-off expenses recovery that happened in 2011. Thus reducing the base of comparison. The NOI plus key money increased by 17.2%, and the margin reduced 80 basis points, close to 90%. When we show the NOI plus key money per share, it makes evident the value creation for our shareholders throughout the continued development of new properties, which led to a stronger or to a strong income generation.

On page 21, and before we speak of EBITDA, the fourth quarter 2012 headquarter expenses were 6.7% lower than 12 months ago, while for the full-year comparison, it went up by 13%. This increase in headquarter expenses was mostly due to non-recurring items of BRL12.8 million, mostly concentrated in the third quarter. Just for analysis purpose, if excluding the non-recurring expenses in 2011 and 2012, the increase would have been of 3.9%, significantly lower than the 5.8% inflation for the year.

Another important item there was new project expenses, both projects-for-lease and projects-for-sale, which reached BRL49 million in 2012, 74.3% higher than 2011. The planned increase in new project expenses resulted from the new projects announced and the expenses related to the new areas delivered last year.

The fourth quarter consolidated EBITDA reached BRL171.4 million, with a margin of 71%, 211 basis points higher than the fourth quarter 2011. For the full-year, EBITDA figure had surpassed the BRL0.5 billion mark and delivered BRL615.8 million or a 35.2% increase over 2011. The EBITDA margin reached 64%, 331 basis points lower than the margin in 2011, due to the increase of real estate projects-for-sale rate in gross revenues. I specifically refer to the selling of the Tower Morumbi business center that happened in the first quarter of last year, and I mentioned on a few slides in the past. The shopping center EBITDA margin, which means excludes the revenue expenses and cost of real estate for sale from the consolidated EBITDA reached 71.7%. If we disregard new product expenses, the margin would have been of 76.1%.

To wrap up results, please go to page 22 on net income and FFO. Our net income reached BRL388.1 million, 30.1% higher than in 2011 in spite of all the expenses with new projects and the increase in leverage. It is a new high for the company. FFO was of BRL550.6 million, 24.1% higher than in 2011. FFO per share was up BRL2.89, with a CAGR of 16.4% in a five-year series. Once again, this is an example of how we can create value for our shareholders.

Well, to speak about investments, please go to the next page 23. We increased our investments due to investments in several projects, but our net debt remains at comfortable level for the company at 2.44 times net debt-to-EBITDA or BRL1.5 billion.

The strategy to increase our exposure to CDI initiated during the third quarter of 2011 help us to reduce the average cost of our debt and 200 basis point in 2012 alone. We reduced it from the 11.28 on the fourth quarter 2011 to 9.08 in the fourth quarter 2012.

And to finish the last page shows that Multiplan stocks, the MULT3 ended the year at BRL60.20 surpassing the IBOV risk by index by almost 50%. The stock liquidity also improved significantly. The traded volume in number of shares increased 36% when compared to 2011, while the average daily traded volume increased 94.5%, reaching BRL17.4 million per day.

I will stop here and move back to you for any questions that you might have. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Excuse me, I'll turn over to Mr. Armando D'Almeida Neto for final considerations. Mr. Armando, you may give your final considerations now.

A - Armando D'Almeida Neto

Thank you. Well, I want to thank you very much for your interest on our company, for your patience to hear at all the figures, all the numbers. I want to thank you for your trust on us and I hope to see you on the next calls. Thank you very much and have a good day.

Operator

Thank you. This concludes today's Multiplan's fourth quarter 2012 earnings conference call. Thank you for your participation and have a good afternoon.