Q4 2011 Earnings Call

Company Participants

- Armando d'Almeida Neto, CFO, IRO
- Rodrigo Krause, IR Director

Presentation

Operator

Good afternoon. Welcome, everyone, to Multiplan Fourth Quarter 2011 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 Superintendant and Mr. Hans Melchers, Planning Manager.

Today's live webcast and presentation may be 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 Multiplan's remarks, there will be a question-and-answer session, 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 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 macro economic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Rodrigo Krause, in the name of Mr. Peres. Mr. Rodrigo, you may now proceed, sir.

Rodrigo Krause

Good afternoon, everybody. I will be reading the speech of Mr. Peres who cannot be with us at this morning. Thank you.

Dear ladies and gentlemen. good afternoon. I want to thank you for your attention in this moment in which we disclose our Fourth Quarter results of 2011. With this, we close a year that fills us with pride and we have good reason for this as results were indeed extraordinary.

In 2011, Multiplan reached a net profit of almost BRL300 million. This amount was 36.5% greater than the BRL218 million in 2010, which already was 23% higher than that of 2009. EBITDA in 2011 was BRL455.3 million, 30% higher than in 2010.

Our assets are now valued at about BRL13 billion. Compared to 2010, the increase in shareholders equity resulting from the appreciation of these assets was about BRL715 million.

In line with the more conservative guidelines adopted by the Company, however, this increase in value was not recorded in our books. With great results in 2011, we decided to propose the payment of (inaudible; background noise) on shareholders equity in the amount of BRL100 million in addition to the distribution of dividends of BRL49 million. These amounts added surpassed an almost 45% to benefits paid to investors last year.

To us, the year of 2011 will be remembered for the inauguration of the 14th unit in our portfolio, Park Shopping Sao Caetano. Right after the inauguration, it has been appraised and valued by Jones, Lang LaSalle in BRL628 million, or 130% over the CapEx.

We also increased our interest in shopping Vila Olimpia from 30% to 60%. We have great confidence in this development so the quality of its primary area and recent sales performance. Across from one of these shoppings we concluded the construction of the Morumbi business center, a commercial building with 9,383 square meters of private area. The property was sold for BRL165 million or 114% of its CapEx of BRL77 million.

In Porto Alegre we delivered Cristal tower with almost 12,000 square meters of private area. In both cases, the office buildings add value to our shopping centers confirming the mixed use strategy that benefit both by generating synergies.

In 2012 we will inaugurate three new shopping centers, VillageMall in Barra da Tijuca and Park Shopping Campo Grande, both in Rio de Janeiro and Jundiai Shopping in the state of Sao Paulo. Together, they will add 101 square meters of GLA to our network and the net operating income, NOI of BRL116.3 million in the third year.

More than six months from inauguration they already has more than 89% of its stores leased. We have expansions in several malls in the pipeline which we should announce shortly in addition to the construction already underway of Parque Shopping Maceio in Alagoas.

We continue to work on the construction of both Morumbi corporate towers in Sao Paulo and also Park Shopping corporate in Brasilia with the total of 88,000 square meters of building, owner and manager association area, (Wal-Mart). When fully leased, this should generate an additional revenue of about BRL91 million for Multiplan.

With the purpose of selling the properties, we launched Centro Professional Ribeirao Shopping to our result and two new buildings in Porto Alegre, a commercial and residential tower with services integrated to buy a shopping (sul). We also have a land bank of 619,000 square meters, an important platform for new projects that will insure that the Company will continue to grow consistently.

Our ambitious investment program has been conducted in a solid financial environment. Our net debt is up BRL444 million while our cash position is of BRL558 million.

Internally, the Company is increasing its strengths with information technology, making key inroads in management and improving controls. Economies of scale and the increasing productivity are leading to substantial reductions in G&A. We are also very focused on the communities in which we are present, enhancing our relationship by means of cultural and social work, public interest works and environmental responsibility.

Multiplan showed dynamism and capacity to adapt throughout 2011. While retailers increased sales by 6.7% according to the Brazilian institute IBGE, our sales increased 13.2%. The two first months of 2012 confirmed this trend but consumption of families continues to be the most consistent variable in the Brazilian economy and Multiplan is prepared to follow on the steps of this growth. Our strategy is that of the endless seeking of excellence through quality, introducing innovations in each new development. To us, the secret of success is to do things well.

Before handing the word to Armando who will present our 2011 Fourth Quarter results, I would like to thank our coworkers at Multiplan. We are very proud of our team for their work and dedication. It is thanks to them that Multiplan can maintain its performance in terms of productivity, efficiency, meeting deadlines and staying within planned costs.

Finally, I'd like to thank you all, investors and analysts for your attention and especially for the trust you put on our company. Thank you very much. Armando?

Armando d'Almeida Neto

Thanks, Rodrigo. Ladies and gentlemen. good afternoon. I'd like to start this presentation with our operational performance on slide number three. Most of the information presented in this slide has already been disclosed, but is important to highlight the continuous sales growth profit as measured by the same store sales and the impact of mix improvements on the same area sales. It wasn't only a good quarter or even a good year, it is the combination of having quality, good shopping centers and a positive macro environment in Brazil.

On the next slide of number four, we show that the strong demand for space in our malls, here represented by the 10 year series, has been increasing in spite of the addition in GLA. We see more demand as we track and move to where new growth leasable areas to our portfolio. The bigger demand for space is in line with the growth in sales in our properties when compared to the growth in national retail.

In store 11, sales in almost increased almost twice to what national retail in general did. Whereas if you look into a 10 year long series, the increasing almost three times -- we increase this almost three times. Once more, we believe that the high occupancy rate is a trend and not just a good moment we've been going through.

With regards to the higher occupancy rate in our shopping centers. A frequent question is how well our shopping centers (inaudible) also which still presents a lower than average occupancy rate in the Fourth Quarter. We see a strong improvement in the indicators for both malls, foot traffic, sales vacancy, parking, rents and so on. We have a very (positive) expectation going forward, we do why in different moments we increased our stake in these developments.

On slide five, I would like to call your attention to the 16.6% growth in rental revenue as you can see on the top figure. A cash addition of BRL23 million in the Fourth Quarter alone or BRL70 million for the full year, same store rent increased 14.5% in the Fourth Quarter and 14.1% in 2011. We also highlight the real increase of 5% in 2011 on top of the inflation adjustment effect. And if you look throughout the past years, '07, '08, 2009, and '10, you'll see that we've been able to grow faster than inflation on top of inflation throughout those five years series.

The chart on slide six represented -- represents the growth in net operating income of 27.6% in the Fourth Quarter and 19.5% for the full year, as a result of organic growth and the opening and also the opening of Park Shopping Sao Caetano in November last year. The combination of a higher revenue and a reduction in shopping centered experiences led to a significant improvement in margin, reaching a record 94.2% in the last quarter and of 90.4% in 2011. This is just the first slide showing the efficiency gains in several indicators.

The following slide shows a brief EBITDA analysis. Once more the combination of organic growth and new areas being added with the reduction in expenses led to increasing markets. Margin growth in the Fourth Quarter was leveraged mainly due to the improved operations in our shopping centers, while the margin for the full year of 2011 benefitted from the reduction headquarters expenses of 5.1% and pre-operation expenses reduction of 35.3% besides of course of the operational growth.

We understand that shopping center EBITDA margin better reflects our achievement in addition to being a more comparable number to those of other companies in the same sector.

Going to slide eight, this is the slide -- this is the one we like to look at. The final results from growth, financial expenses, G&A taxes and so on. Net income increased almost 50% in the quarter and 36.5% for the full year, representing a larger stake of net revenues.

Year after year, we have grown not only on the revenue line, but also increasing our net profit and our cash generation measure by funds from operations, (inaudible) in spite of the increase in the indebtedness of the Company.

With regards to FFO per share, we started from a very strong base in 2007 when we IPO'd the Company. Even so, we have grown at an average compounded growth rate of 14.6% per year, generating BRL2.33 per share in 2011. And why do we like to analyze net income and FFO? Because this is the proceeds we may provide our share holders with as will be explained on the next slide of the number nine.

For the fiscal year 2011 and subject to the approval of the shareholder's meeting, we will pay BRL100 million in interest on shareholders equity as announced last November. And an addition, BRL49 million in dividends. It is BRL149 million before taxes being distributed to our shareholders and represented an increase of 45% over the total amount distributed for the fiscal year of 2010.

Back to the subject of margins, in short, on slide number 10 this slide clearly states the continuous improvement in margins in of efficiency in the main operation and financial indicators throughout the quarters.

Our net debt in December 2011 and moving to slide 11 please was off BRL444 million, equivalent to 1 time EBITDA. We increased the CDI index stake to better take advantage and it's -- on back in August last year when we looking at easing cycle starting what we ready to start then we decided to increase the CDI in the stake to better take advantage of the reduction in the normal interest rates in Brazil and we will still have another BRL291 million already contracted (already drawn) to finance our investments and -- our investments in 2012 and 2013.

On slide 12, we show yet another good example of value creation for our shareholders, Park Shopping Sao Caetano and as Mr. Peres mentioned in his speech after a net investment of BRL237 million, was BRL274 million total CapEx minus key money of BRL35 million -- about BRL35 million -- I'm sorry for the numbers of 35 is -- sorry, BRL37 million.

The shopping center -- so let me step back, after the net investment BRL273 million, that was CapEx of BRL274 million minus key money in the amount of BRL37 million. The shopping center was valued by Jonathan Lang LaSalle at BRL628 million. In other words, 2.7 times the net CapEx. Another way to look at this value is through the NOI yield of 20.1% per annum real an unleveraged.

Before we touch upon a brief update of projects under development that we see in the next slides, I would like to say that the year of 2011 was a record in terms of investment with BRL689 million in CapEx, in addition BRL264 million in land acquisition with a total of BRL953 million in a single year.

It is also worth mentioning the increase in our Greenfield CapEx presented this quarter. We have some increase in CapEx, but let me better explain. The increase is relatively small when you compare -- when we explain that in a different way. An increase in CapEx is even necessary the consequence of a real increase in cost. It can also be due to changes in the projects -- due to changes in the project itself.

Park Shopping Campo Grande, as an example had in this First Quarter an increase in CapEx of BRL21 million, of which BRL19.5 million was due from the decision we made of having an underground parking area, a new addition underground parking area in the mall. I imagine that you also have realized that the net revenue for the first year has increased by more than BRL5 million as a result of the improvements and the growth of the region, which by the way, was the reason, the catalyst for this season to change to improve this project.

Demand for space continues to be in general -- demand for space continues to be quite strong. (inaudible) shopping, Village Mall and Park Shopping Sao Caetano are -- and Park Shopping Campo Grande are at full speed and being built to be delivered on schedule in the Fourth Quarter of the year underway.

The Maceio project has been rescheduled for the Third Quarter of 2013 as a result of changes on the project and ne viability studies.

The commercial towers for lease continue to be built at a strong pace to be the leader on scale. Park Shopping Brasilia Towers are expected to be delivered in November this year while the ones at the Morumbi shop in Sao Paulo in September next year.

In short, and on page 18, we should increase our own GLA in 198,000 square meters by the end of Third Quarter of 2013, generating an additional income of BRL203 million right in the very first year in operations. These BRL203 million correspond to -- just to give you an idea, 40% of the NOI generated in 2011, after the 20% increase presented.

The next slides will show you an update -- the next two slides in fact, we show you an update of our three projects for sale, the commercial tower by Ribeirao Sopping which would be delivered by the end of this year and is basically fully sold. And the two towers of Barra Shopping Sul, Porto Alegre announced at the end of last year in which we will begin construction shortly. They are both towers in the selling process. And some we have expected proceeds from sales value of BRL304 million.

More recently, we announced two transactions, the sale of our business office tower across Morumbi Shopping called Morumbi business center. And the acquisition of a 30% interest in Shopping Vila Olimpia, increasing our stake to 60% in the process.

The deals reinforce our strategy of having a strong interest in the malls we own and that shopping centers are our core business.

Finally, on page 22, our view with regards to our properties, to which we attribute a fair value of BRL10.7 billion for shopping centers in operation, BRL1.6 billion for projects under the development and BRL700 million for future expansion not yet announced for a total of BRL13 billion. It was BRL750 million increase compared to last year.

Before we open to questions I just would like to comment on our expectations for -- on a few of our expectations for 2012. In which we plan to invest around slightly over BRL1 billion and have the chance to deliver three new shopping centers as was mentioned by Mr. Peres. It wouldn't be a surprise that we have occasional, specific increase in expenses due to the strong growth and the delivery of the developments this year. Its -- it is normal marketing campaigns (quarts) related to the new area added on this third to the Fourth Quarter. Specific there and is related to this new openings.

I will also would like to note that because of the sale of the office tower, Morumbi business center, the strong results generated this First Quarter, 2012 of the year will be very closer to increase of our EBIT, although it will reduce the Company margin because of the wait that we will have in terms of real estate for sale compared to the shopping center business, the much higher margins.

This is why we like to show our EBITDA margin in different ways. They're consolidated, the shopping centers' margin and its shopping center, it stood in pre-operation expenses, due to the timing mismatch between pre-operational expenses and (inaudible).

So I will stop here. I want to think you all and let's start the Q&A session. Operator, back to you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. the floor is now opened for questions. (Operator Instructions) Excuse me, since there are no questions, I would like to turn over to Mr. Armando d'Almeida Neto for his final considerations. Pleas, sir, you may now begin.

A - Armando d'Almeida Neto

So I want to thank you all for your continuous support and trust in Multiplan. So we remain available at any time for questions, for any comments that you might have. Thank you very much and have all a wonderful afternoon. Thank you.

Operator

Thank you. That does conclude our today's Multiplan Fourth Quarter 2011 Earnings Conference Call. You may now disconnect.