Q2 2020 Earnings Call

Company Participants

- Ruy Kameyama, Chief Executive Officer

Other Participants

- Analyst
- Andre Mazini
- Elvis Credendio
- Jorel Guilloty
- Marcelo Motta

Presentation

Operator

Good afternoon, ladies and gentlemen and thank you for standing by. Welcome to the BR Malls Conference Call to discuss results regarding the Second Quarter 2020. Today with us are Mr.Ruy Kameyama; Mr.Frederico da Villa; and Mr.Derek Tang.

(Operator Instructions)

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call regarding the company's business prospects, projections and operational and financial goals constitute beliefs and assumptions of BR Malls' management as well as information currently available to the company. Forward-looking statements are no guarantee of performance as they involve risks, uncertainties and assumptions and therefore depend on circumstances that may or may not occur.

I would now like to turn the call over to Mr.Ruy Kameyama. Please, Mr.Kameyama, you may proceed.

Ruy Kameyama {BIO 16672412 <GO>}

Good afternoon, everyone. Thank you for attending our 2020 second quarter earnings conference call. We'll start the presentation on Slide 2.

Due to the pandemic, we started the second quarter of 2020 with our entire portfolio closed. The above reopening process happened gradually and always observing the recommendations of the local authorities. The company has a quality portfolio with great strength, which covers all regions of the country. As you all know, as COVID-19 spread at different times and at different intensities, some regions were less affected, and therefore, reopening process was faster. As a result, we closed the second quarter of 2020 with 23 malls reopened, that represented 69.5% of the 2019 of the NOI core.

On August 8th, we resumed the operation of the last mall that was still closed. That was the first day since March 17, when 100% of the company's portfolio started to operate simultaneously even with some operating restrictions related to opening hours.

On Slide 3, we show the evolution of some operational indicators. Despite the scenario of restrictions in the activities of the assets, it's possible to observe a consistent evolution of indicators of the portfolio. We can see the flow -- the vehicle flow between April and July week one, being the first week of the second quarter. The first week of the quarter showed the reduced flow due to the small numbers of reopening shopping malls and also because of the fear people have of leaving their home. However, as we approached the end of the quarter, the number of reopened malls increased to around 20 and the weaker flow evolved to about 65% below the same period of last year. A very significant improvement compared to about 90% of reduction observed in the first weeks of reopening.

Regarding evolution of sales this last chart shows the evolution of SSS between April and July. It's important to highlight that this part these negative results in that periods, our malls had restrictions on their opening hours. And none of the malls in the portfolio had their operation operating above 6%, 7% considering their regular opening hours. We managed to slightly mitigate the impact of the closing of malls, offering alternative models for consumers such as delivery and drive-through modalities. All these initiatives contributed to the tenants having sales channels when the malls remained closed.

In of the graph refer to the number of commercial proposals that we received. We can see that the month of June and July there was recovery in the commercialization activity with the number of new lease proposals received by our company, returning to pre-crisis levels in the period. We attribute these results to two factors. First, the quality and resilience of the portfolio. We would like to remind you that the sale of the portfolio non-core that we had been performing the best years and when we compared with the second quarter of last year, without a doubt the portfolio is much stronger and more resilient than we had one year ago.

The second one point is the performance of the commercial team. The team was very engaged in spite of the moment and they had close contact with the main brands and improving the relationship. And that made it easy for the recovery to take place, especially at this moment. And the third factor is expectation of the tenants. They are noting this recovery of sales and decisions are made looking at the medium and long-term horizon. And the last factor that we attributed to, as we believe it's going to be very important in the next month is the interest rates. Our base interest rate is very low, and this encourages the expansion of tenants' businesses, be their franchises or their own stores.

On the Slide 4, we present the results of sales, aside assets that stood out in the recent months. Amazonas Shopping; NorteShopping in Rio de Janeiro; Vila Velha in Espirito Santo, Tambore, which is our greatest NOI in Sao Paulo and Plaza Niteroi in Rio de Janeiro. And based on the analysis of the weekly SSS, since the first week of the second quarter, we can notice that this assets that stood out with not only for the quick reception in sales, but also because there was a competence along the weeks and some of those shopping malls were favored by the mall as a hub model and other channels that helping through the sales. During this COVID period, we understand that the opening hours are getting closed to normal. We can see that there is more flexibility during the weeks. And when entertainment activities start again, we expect a new recovery stage.

On Slide 5, we can see the commercial policy that has been adopted with our tenants throughout the quarter. And our priority is to .support measures the tenants. So, that they can managed their own cash flow and have a nice working capital to face this crisis.

In April, we had a reduction of a 100% in the base rent to tenants, who were in defaults with a condominium. If the tenant was in default with a condominium, the payments that was postponed to March 2021. The condominium showed an average reduction of 60% and the maturity of this payment slip was maintained for the original due date. The promotion fund was charged in full with the majority of the payment slip was postponed to March 2021.

For the shopping mall that remained closed during the months of May and June, the commercial policy adopted was the same. For the shopping malls that opened in May and June in those months, we gave a reduction pro rata and an average reduction from 30% to 34% [ph] in the value charges for the condominium.

On the following slide, Slide 6; we present some operational indicators for the second quarter 2020. Total sales of the core portfolio of the company decreased by 83%, a total of BRL781 million. The SSS had a decrease of 71% for the quarter. And the occupancy rate was maintained at the stable level compared to the same period of the previous year reducing 1.1%, reaching 96.2%.

And the preservation of the occupancy level reflects the strategy that implemented in the past few years with the recycling of the portfolio, the sale of non-core assets and the strengthening of the store mix and this has been a constant approach by the company. And the development of actions to enhance the performance of tenants with digital solution and actions focus on the preservation of businesses in this period of crisis, such as the commercial policy and the development of partnerships for the tenants.

And the same factors were also fundamental to control net default rates in the period, which is totaled 3.6% with a growth of only 2.7 p.p. when compared to the number of the second quarter 2019. At the same time, the level of overdue payments increased by 9.6%, above the amount recorded in the second quarter 2019, a total of 16%.

Now moving on to Slide 7. We present the PBD expenses. It's important to mention that considering all the scenarios caused by the pandemic, we decided to use this provision in a conservative manner. And with this, we revisited our loss provision matrix in order to consider the recent changes in our credit risk, mainly in relation to the level of default and the expected loss expected by the company in the period, which caused non-recurring increases in the allowance for doubtful accounts.

The indicator can be seen in two large blocks. The first with the effect generated by the update of the PBD criteria in the amount of BRL26.5 million. And the second block with recurring impacts for the quarter a total loss BRL36.9 million.

In this first block, we have first, the operation of the percentages and the provisions lines with an increase of 4.6 million. And the second was the provision of tenants that did not use the company's commercial policy in the amount of BRL21.9 million that is to say tenants, who were in default with the condominium and who therefore have a higher credit risk.

It's important to note that these effects are not expected to be recurrent. Since the company understands that its judgment is considered the potential credit risk of the month in which the malls remain closed, which is not the case anymore. Mentioning the recurring impact for the quarter, we highlight that since 2018 that company has adopted very conservative criteria, when classifying the tenant range by the oldest expired title. Applying the percentage of provision over -- the range over the total customer balance that is we consider all the past due and due bills.

In view of this, there is an anticipation in the recognition of the PBD and since we do not consider only the percentage of maturity bonds. So, the overdue bills from defaulting customers was BRL50 million and the remaining amount of BRL21.9 million refer to securities already overdue as a consequence of the increase in net rent and the condominium default levels. We understand the criteria adopted are conservative and then it approximates to the cash criteria. However, as the sales are resumed, the trend is for adjustments in percentages for rentals to return to lower levels and the payments are postponed payment slips generate recovery of amounts that have already been provisioned.

On Slide 8, we present the performance of our main financial indicators in the second quarter 2020. We presented 38.8% reduction in net revenue in the ex-sales views in the amount of BRL185.5 million, a 50% reduction in the quarter's NOI, also the ex-sales dues in the amount of BRL137.4 million. And there was a significant increase with sales and EBITDA reached BRL19.2 million, a reduction of 59.8% in the ex-sales dues.

If we exclude this impact of the EBITDA, the EBITDA would have reached BRL90.2 million a reduction of 69.8% in the ex-sales use. Our adjusted AFFO decreased by 82%, when compared to the same period of last year.

On Slide 9, we present some data regarding our current capital structure. We started the second half -- in the second half with very comfortable cash position with BRL0.2 billion, 53.3% higher when compared to the position at the close of 2019.

Our position was strengthened by the issue of commercial promissory notes in the amount of BRL300 million in the first quarter 2020 and the issue of bank credit in the amount of BRL400 million in the second quarter 2020 settled on April 17 at a cost of CDI plus 3.10% in the two-year term.

For the years 2020 and 2021, the company has no material commitment that could affect our liquidity. The coverage ratio shows that our operational commitment to pay financial expenses is at the highest level in recent years. In the second quarter 2020, the registered index was 4.7x. Today, we have a strong cash position with no relevant obligations up to 2021, which gives us peace of mind, regarding the strength of our balance sheet and the option for any opportunities that may arise.

On Slide 10, on the next slide, we show the efforts made by the company to develop its digital transformation process. Since 2017 we have strengthened our digital strategy and there's a very important role of the culture and team. And to strength this team on June 29th, we announced a significant change in our organizational structure. We gave any purpose to the business development department focusing on the evolution and acceleration of the business model and development of digital and technology fronts.

This new strategy has the functions of strategic planning, digital information, technology and new businesses. And with this, the Board changes its name to the Board of Technology and Strategy. To lead this initiative, we invited Leonardo Cid Ferreira, a professional has extensive experience in the area of digital strategy, digital marketing and e-commerce. And he has been with us for some weeks already and he has already integrated into the team. With the scenario caused by the pandemic, we accelerated our plans and prioritized investments and initiatives that complement our digital efforts.

The objective of the digital strategies to better serve our customers and shopkeepers, improving the customers' -- consumers' journey and make the shopkeeper a protagonist in that customers' journey. First, we have to consider the mall as a hub. So, the shopping malls is a hub. For this, we had partnership with the delivery centers, which is in the roll-out phase and we want to implement this up to the end of the year. Together with this, we have developed other multi-channel initiatives with an opportunity to purchase by means of drive-through and lockers. And the second, was the development of an application for our consumers to use in each of our malls.

This offers the customer the service of marketplace in which the consumer can make purchases from any stores in the mall and receive the project at minimum cost and at fastest speed. And now we have a relationship general to increase the channel to increase the channels and better interaction with our customers, making them more royal and getting to know deeply their habits of purchase.

Our shopping malls in addition to have all the mix to be offered that can help us in the loyalty program. It's important that we sell products inherent to shopping malls. Entertainment, marketing, events, all those services can be used as leverage as for our loyalty program. Today, we have eight malls that's has already those features in operation and we expect that up to December this year this initiative will be rolled out to the other shopping malls.

On Slide 11, we show the focus of the company and the main objectives in this resumption. Firstly, we focus on the recovery so that this can be done as safely as possible for customers, tenants and employees. We are maintaining those stringent measures of safety. So, we want to convey safety and reliability and confidence to our customers, so that they can reach the shopping malls with pleasure and this will help in the sales.

We are going to help all things of commercial relationship that we have developed along those years and this will make a very strong so that we can build all this together with everyone together with the tenants in the best possible way.

The second we would like to mention that the company strategy shows how important it was to develop this consistent portfolio. And with this robust balanced so that we can go through this period, prepare to make new investments and to be on the lookout for new opportunities, especially in the scenario after COVID. In the long run, we believe that our fundamental remain unchanged. This is very important. Everybody understood that the was very typical, but we believe that we always have to mention that we have to go back to the fundamentals.

We believe that the shopping mall were still the best option for those retail markets and the consumers, and the tenants will always be looking for assets with excellent performance. And more than ever they have to offer new solutions and the development of digital solutions will be accelerated and we believe that even with an increase with penetration of the e-commerce in the Brazilian retail market, shopping malls are well positioned and well prepared for business scenario as offering a complement to the business model all those traditional business model, traditional shopping malls.

We believe that in Brazil e-commerce was developed through shopping malls. As I said, the mall as a hub and depending on the location. And we also be able to offer greater speed in deliveries. We believe this is a trend that came to stay. And the fourth point, we would like to reinforce the importance of people and culture.

We have worked very consistently to change the culture of BR Malls, focused on the long-term cooperation, giving attention to our customers. And we believe that values are ever more important in the scenario that we can adapt to changes. And we are very happy with the team that we have formed. They all have those entrepreneurial profile, which is very important in this moment of recovery and adaptation.

With this, we end our representation, and we are available to answer any questions you might have.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). Our first question comes from Pedro Renald with Bradesco BBI.

Q - Analyst

Hello, good afternoon. Thank you very much for the presentation. First, you've talked about commercial portfolio. I would like to understand the rent price negotiated with the tenants. Do you see any higher price pressure? And in relation to your positioning this new discuss will be granted or not? I would like -- we can expect in relation to SG&A -- I think you made a reduction in the reduction of G&A. I think this is due to the close portfolio. And I would like to know that in the future, it will go back to the levels of pre-Corona virus. And how can -- is it possible that this can cause any permanent impact on the stores?

A - Ruy Kameyama {BIO 16672412 <GO>}

Okay. Fredric, thank you very much for your question. As to the first question, which is relation to the commercial proposals; as I said before, we have worked very hard together with a commercial team and it's always -- I will understand that we have to be very close to the tenants and we also have to mention that the sale of non-core assets improve the portfolio and our portfolio became more wished by the tenants.

And this all put us in a position or being close to the customers and tenants. And some stores are leading the shopping malls at the moment. But we also understand that there is a growing demand for occupancy, and these are major or satellite stores or own stories or franchises.

I think the branch that are doing well, they see this as an opportunity for them to be better located so that they can be present in the best shopping malls at the price that naturally they tend to negotiate considering the situation at the moment, so please -- the answer to your first question. And also -- when you talked about the price trend and the revisions of rents, we can say that the rent levels are a bit lower than we used to charge, because we know that there are a lot of uncertainties still, but we understand that there are some uncertainties of what will happen to the end of the year and the beginning of next year.

Of course, we are in a comfortable position, because our strong -- we have a strong portfolio and the occupancy rate is down to the level of 96%. So, we have to look to the future in the long-term. We believe that of -- to the beginning of the 2021 or to the vaccine is approved. We have uncertainties, but when we talk about longer agreements or contracts, we are going to look at the far horizon.

In relation to the negotiations, we understand that those negotiations would reflect all those uncertainties and the negotiations has been following this who is feeling and -- at the same level of rents. And so is about G&A, we have -- we expect that we will be able to maintain the levels after everything is normalized. As to pandemonium, we understand will be able to maintain that level higher -- lower than 15%, but even after all the shopping malls are opened as for G&A, we believe that we will be able to maintain part of what's happened in the quarter ahead.

Q - Analyst

Okay. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Next question comes from Elvis Credendio with BTG Pactual.

Q - Elvis Credendio {BIO 20084266 <GO>}

Good afternoon, my first question is related to sales. And if you break it down into segments so that you can possibly understand how the recovery has been taken place. Is there any component that demand has been passed due to the pandemic? And we understand that some other segments are doing better. So, this would be my first question.

My second question is related to rents. In relation to cancellation what are the volumes? And considering the current situation, what do -- what is the situation we expect for the future in terms of occupancy? Things that you were -- you said that the level of the commercial proposal is increasing. Okay. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi, Elvis. Thank you very much for your question.

As to sales performance, so everything has happened so soon and the sampling -- the samples are not so great. As we mentioned in the last quarter, we said that -- computers, household items have recorded interesting performance and there is issues that consumption habits has changed since this is what people have been using. More people have been watching -- to spend more time at home. They enjoy their homes and they wanted to create their households and we understand these are segments that have been having good results. What we have also seen is that positive same store sales, the main shopping mall of the state, and it's a state that had a large wave of contamination of COVID, and now it has reached a different moment from the peak that it reached before. So, people are freer to flow around.

We do not understand this to be a repressed demand. I think that repressed demand will be only in the first few days and then this curve will change as we have shown. What we understand is that it's a level that we expect to be maintained and we expect it to be improved when the cinemas, theaters are open. What we also notice is that maybe the shopping malls with a more democratic profile would recover more quickly. So, this is a hypothesis. We could not help it for sure. But what we have noticed that part of the population already feel more comfortable to go out on the streets, to go places, and this is what has happened. And it has encouraged the recovery in some specific profiles.

As to your second question; when you talked about cancellations or termination of a grievance, we -- in the beginning of COVID, we imagined that the situation would become worse. So, what we have today is better than we had pictured at the beginning. There's some sectors to explain this. The tenants are noticing that sales are recovering and this -- we understand that they had invested into difficult decision for them to make, so they made major investments in their own stores -- decision to closer store is a definite decision. Of course, you can go back to that mall, but you have to consider the CapEx involved. So, people are considering before making a definite decision.

So, they are waiting and looking to see what's ahead so -- and now it's become clearer to everyone that this first quarter was a big shock, but at the same time, we can see that this is passing and the recovery is likely to be sustained. And of course, everybody helps one another. We survive, we survive together and we will go back to normal life. Our decision to exempt the rent prices was when we decided to look into the future in the long-term from tenants not prepared to shock, but we understand that this shock relies just some weeks and the value of our business is much related to what we are building for the -- what we're dealing for the base of tenants in the long run. And I believe that the tenants are having the same idea, the same view.

At the decision, it's trying to keep the store running, opening. Definitely that we see especially what we mentioned, when we talked about the low interest rates, we'll have -- will play a very important role. As a country had never lived a moment of such low interest rates, and this cascades to other areas. We can see IPOs, we can see a number of -- a lot of movement in the capital market, a number of follow ons, which are being offered (inaudible) we see a number of retailers going to -- into the market and taking advantage of the scenario of low interest rates, and this is an encouragement for extensions.

And also some franchises use way back the investment four or five years, and this COVID scenario pushes well those -- we start to notice this some franchises and the (inaudible) when the franchisee has a financial difficulty and the franchiser see that there is someone else, who's interested in buying back that franchise, so this new level -- this new situation of low interest rate will make the demand of some areas increase. Some players are leaving and we can also see that some of the some of them are being favored and are entering the market.

Q - Elvis Credendio {BIO 20084266 <GO>}

Okay. Very clear. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Our next question is from Andre Mazini with the Citibank.

Q - Andre Mazini {BIO 20818108 <GO>}

Hello, good afternoon. My first question is related to the fair value adjustment. We see that the main reason for the adjustments down was the occupancy that was expected lower than it was before. Do you expect something lower than this 96%? And another question related to initial -- the initial digital initiative? We can see that R18 was discontinued and they are having roll-ups for shopping malls. In the past you -- mentioned the cost per client is very high, depending on the geographical region. I would like to understand, which of the cheapest strategy? Is it better to have an app that covers a certain area? And we would consider the customers you have and how much they can afford?

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for your questions. First, in relation to the fair value adjustment. We do this and from time to time, and this is basically the moment the model of the discounted cash. And this is what we have done is a formal process of appraisal of assumptions. And we saw that in one or the other assumption, this would be reasonable to make the adjustment. And that's why we put the price down, nothing very significant. But we thought that was the right thing to do at the moment. We have no major variations considering the COVID effect. As I said, these are models -- solid and they wouldn't be so important along the years. And this is a marginal change a regular change.

And in relation to your second question, for those, who don't understand (inaudible) was an app of delivery center, which was available for consumers to download and there was a number of such stores and restaurants for delivery. And it's no longer there, because -- we decided to have a more B2B initiative. So, with the purpose of providing solutions to the retailers and the retailers on the other hand (inaudible) B2B or the shopping mall strategy. So, this made it clear of their role and how they can add value to the shopping mall.

And the second was -- the finding of which region you want to operate. What's the cost of acquisition for some apps, which are fighting for consumers. In our case, our strategy is to have one app per shopping mall. Because we understand that our consumers have an emotional relationship. The knowledge of the brand of the shopping mall, and they tend to visit the same shopping mall. So, the relationship -- consumer with a shopping mall, they go to such as, shopping temporarily, in a shopping. And this is a shopping the person goes to, the closest shopping, they have an emotional connection with that shopping mall, and naturally or this interaction to occur digitally is easier. It would be harder if you offered another brand, where there was no emotional link or bond, okay. So, there is -- frequency of revisiting would be much higher then, just like (inaudible) shopping, the person would go there again and strategies to have one app per mall. And in the app, we would have different items, loyalty, restaurant reservation, purchases of movie tickets. So, that we can enhance the interaction of the consumer and the mall offering, an incredible experience in the digital channel in the shopping he's already used to going.

Q - Andre Mazini {BIO 20818108 <GO>}

Okay, perfect. This was very clear. A follow up, please. So, I believe that developer will be the same as since you're going to develop different apps for different malls. So, what about the price or you're going to gain scale, intervention make different apps. Yes, without a doubt gain scale something very important to consider. I will mention -- there is one related to the development of technology, which is quite expensive. It's a very major investment, not only in relation to technology. But also those people involved all those tech talents, which are very expensive in the market.

So, scale was necessary. But once you have the digital product, it's much easier than for you to multiply this, because you have the engine and you have the factory, have the infrastructure ready prepared and then you can share it. And here we have very important game scale when we do best technologies. And also when we involve the game, we understand that as well as important as having this digital product is also to have so important to have the team engaged so that we can activate the consumers. There's an offline part portion, which is quite important and gain scale would also help also in this regard. This will all help not only into the development, but we also team, which will be dedicated to the rollout of all those initiatives.

Okay. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Next question comes from Jorel with Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good afternoon. I have two questions. First, thank you for the presentation. And what I would like to understand is -- related to the smaller tenants? How the sales are happening to smaller tournaments and also comment on their financial health, because the smaller players have less capitals, the balance sheet is smaller. How do you see their financial health and now and in the future?

The second question is related to digital initiatives. How have you organized those internally? And how is the focus on the digital products? And how can be our malls monetize all those progresses, all those appearances would digital revenue be an important part in the total revenue. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi, Jorel, thank you very much for your question. As to the performance of smaller tenants and their financial spending, it's too early. We believe we do not have a clear trend now. Those in relation to vacancy and to default rate varies we do not see any specific concentration in relation to brand or network or groups of stores, and we see that even major brands with their own stores. This is what we do how they stood before COVID if the COVID was not doing well before the COVID, we believe that the COVID pandemic made this business go out of business to get out of the market.

At the same time, if the payer was more efficient is the business was more adjusted and if the teams have the capacity to make quick adjustments, we can also see that those were more resilient. We understood that those, who were not doing well before the COVID got worse, and those were doing well -- they are spending time. What we can see that we do not have a clear trend now yet, but we believe that in the months to come when we clear understand of the situation, everything would be much more -- much better.

The second question is how to monetize with those digital products. I believe that we have direct gains here. Both the direct and indirect in fact, an example of direct gains would be the fact that as we get to know our consumers more deeply at the individual level. When we understand their consumption habits, we will be much better able to use our district strategies.

As you know, we have been resolving those strategies along the years and we have our customer base already segmented, and then this will be a channel for marketing, which will be much more effective for those advisers, because they will be able to reach the profile they want their get to the consumption profile they're are looking for. The consumers will be more relevant and more efficient to the advertiser, and they will see the direct opportunity for us to leverage the media investment. This is one way we can monetize directly. There are many hypotheses to be considered, of course. And from the indirect view point, we're talking about reducing return, improving sales, manage to have a better vacancy rate. If I go to specific mall, because I'm going to do my shopping, but I'm going to be more efficient, because they will offer data, they will offer easier logistics.

We understand that we will improve the preference of tenants in relation to our mall, and this will translate into higher occupancy rate lower vacancy and we understand that we are going to improve our value proposition, because we are going to offer new layers of value proposition new offers that new services as we offered. And indirectly, this will be captured in terms of better indicators such as default rates -- lower default rate et cetera. These are values that can be captured indirectly.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Okay. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Next question Igor Aucker with Santander.

Q - Analyst

Good afternoon. Thank you very much for the presentation. I have two questions. First, in relation to the more efficient portfolio as a result of the work is done in the past years. And how is this going to continue? And how you see more attractive prices in the pandemic period? And the second question in relation to default rate, which was higher in this quarter and did you notice any patterns specific to a segment, was any specific segment more pressed down? Okay. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi, Igor. Thank you for your question.

First question, in relation to the portfolio; we sold eight shopping malls. This year, we sold one shopping mall. And considering our strategy that we disclosed in August last year in a letter, we described why we were selling those assets and the purpose that we have -- when we also have the idea of free up more capital so that we could focus on our main assets. At that time, we said that we have two other shopping malls we sold; that was August last year. One of them we sold in March this year and there is only one -- one more to be sold to complete this recycling strategy that we adopted.

So that we can have the correct portfolio to face up all the challenges that we have a ahead of us; and at the same time, capture all the opportunities, there is only one mall that represents less than 1% of the revenue, and we believe that this is not the right time to do it. Because there are some uncertainties from the viewpoint of any buyer, considering the complicate scenario related to revenues, which are still to be recovered. We are not in a hurry to sell this assets. The work we did is nearly completed and so the management had time to focus on the correct assets. And this is something we are going to do with a lot of tranquility when things improve. As for default rates, there is no specific concentration on any specific segment. So, it depends less on the segment. It depends more on the situation the tenant was facing before the pandemic. There is like a going some steps backwards and some -- some did better, some faced real difficulties.

In that case, as we said in the call of the first quarter 2020, we mentioned that we did our homework considering, when we restructured our portfolio. So, when COVID pandemic started, we have the occupancy rate at the highest level ever, and we had the default rate, so that means that the portfolio of tenants recorded a good performance in sales; it was growing. We had everything -- we had nothing -- years, and we were managed to -- sold all the shops, and during the period that some stores were closed, we did what we could to help the tenets to preserve their business, so that we could continue to gather in the long-term. So, we have some tenants to navigate through this moments. So, the portfolio was very comfortable in the beginning of the March and this helped us to do what we could, during those difficult periods.

Q - Analyst

Okay, Ruy. Thank you very much. It was so clear.

A - Ruy Kameyama {BIO 16672412 <GO>}

Okay. Thank you.

Operator

Our next question comes from Marcelo Motta with JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good afternoon. I have two quick questions. First one, the -- you said 100% of all are open. We still have some restrictions related to entertainment. So, I would like to understand what's the highest or the maximum range that you would be able to charge from your tenants? So, I would like to understand how you see those figures. Is that you're working a pro-rata basis? So, what would we do for the third quarter considering all the opening hours and all the operations?

And the other question in relation to other expenses; there is project which was cancelled in the southeast region of Brazil; was it a greenfield? Is there any detail or you could share with us? Was it a decision associated with COVID pandemic? Just for us to understand the phase related to the pandemic and the current situation of the economy. Okay, thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for your question, Motta. The first one is related to how we're charging the rents after the reopening of the businesses? Yes, we mentioned that we charge it on a pro-rata basis for the period we disclosed. Yes, and that's what we did, and we are considering the -- since there is a large number of discounts, which are being applied and we are studying on the -- case-by-case basis. We understand -- we try to understand what's the performance of that store after the reopening, so there are many variables which are being considered. One of each is opening ours, this is an example; in Rio de Janeiro, the opening hours are normal, but in Sao Paulo, it's limited to six hours. So, we believe that we are negotiating with Mayor of -- the administration of the Sao Paulo city, and we understand that COVID cases are more controlled, so we're negotiating with the operators.

Sao Paulo is 4:00 pm to 10:00 pm, we understand, this is not the good time for the recovery. So, we are trying to negotiating with public authorities and show them there is a way, which can be optimized to do this or to decide on the opening hours. So, one is the opening hours and the other are considering the segments, which are recovering at -- speed. And there are some segments, which face more difficulties -- close for example, and we try to help those, we try to help more and those would need more. So, there is -- there are many discounts, which are being applied. We are being offered. We hope that sales -- sales levels will improve and gradually all those discounts will be reduced as well.

You asked about the project, which is located in southeast of Brazil and was cancelled. And it would involve about 6 million. Yes, this was a greenfield, and we have plans to move ahead with the project and it was a project that was being evaluated. We then decided not to continue with project -- I would say that, COVID pandemic played an important role in this decision. And we believe that there are opportunities that can offer a good returns, and the retailers' agenda is also something that is evolving. In the past, their priority would be different and then we see that, there are more focus on digital solutions and omni-channel. And I believe that our strategies will also go along those lines in terms appetite, so that our appetite will -- higher for digital transformation, which is something that we have been doing in the past. So the decision to discontinue that project was -- these reasons, because we believe that the company can have better return of capital, and this is why we had a write off of this project.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay, perfect. Thank you, Ruy.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

If there are no further questions, we will turn the call back to the speakers for their final considerations.

A - Ruy Kameyama {BIO 16672412 <GO>}

I would like to thank you all for having attended our conference. It was a very hard quarter. I think it was the hardest quarter ever for the shopping malls, but it's important to look ahead; and when we pass this critical moments, we'll continue looking into the future, and we understand that solidity of our fundamental have been maintained. Thank you very much, and we are available -- our IR team is available. Thank you.

Operator

Thank you. The conference call of BR Malls has come to an end. We would like to thank you all for having taking part. And have a good day you all.