# Q1 2014 Earnings Call

## Company Participants

- Armando d'Almeida Neto
- Rodrigo Krause

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon and welcome everyone to Multiplan's First Q 2014 Earnings Conference Call. Today with us we have Mr. José 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 may be accessed through Multiplan website at www.multiplan.com.br/ir. We'd like to inform you that this event is recorded and all participant 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.

Before proceeding let me mention that forward-looking statements are based on beliefs and assumptions of Multiplan's management and on information currently available to the company. They involve risks and uncertainties because they're related to future events and, therefore, depend on circumstance that may or may not occur. Investors should understand that conditions related to macroeconomic scenario, industry and other factors could 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 now begin your conference.

### Rodrigo Krause

Good morning. I'll read a message from Mr. Peres. Good morning, ladies and gentlemen. The retail business and shopping center continues to present good results. This first quarter, the numbers show that the long-term investment in this sector continues to produce excellent returns, especially if we compare it to the evolution of the Brazilian economy as a whole.

Same-store sales in this first quarter of 2014 in our shopping centers grew 8.3%. I highlight that this is the best result in a first quarter in the last three years. In stores up to 200 square meters, annualized sales reached the mark of R$27,800 per square meter. The percentage is even more relevant if we take into consideration that our portfolio has a significant number of new shopping centers. We have built five shopping centers in the last three years. These properties are presenting an impressive growth.

Sales at VillageMall went up almost 67%; Jundiaí, 26.6%; and ParkShoppingCampoGrande, 17.7%. These numbers corroborate the correct decision the company made in investing in the construction of new shopping centers. The 30-plus years old shopping centers such as RibeirãoShopping and MorumbiShopping sales continued to be strong. Both had sales growth of 15% and 12%, respectively. This happens in part due to the constant renovation we promote in our more consolidated malls.

The company is aware that it is mandatory to improve the tenant mix to maintain the properties at a high level of quality, in addition to offering a wide variety of services to attract even more customers.

Looking to the immediate future we are about to deliver the seventh expansion at BarraShopping. The mall will get an additional 9,500 square meters in new GLA and will have a total area of 38,000 square meters of GLA and 680 stores. We will offer a new list of brands that aren't yet present in the mall such as P.J. Clarke's, Gap and the second Forever 21 store in Rio. By the way did you see the success this brand has had in our shopping centers in São Paulo and in Rio? The retail chain has already signed use agreements to open stores in RibeirãoShopping, ParkShopping Brasília and BarraShoppingSul. The success of this brand reinforces the objectives of Multiplan to bring to the country new international retailers that meet the consumption needs of the Brazilian consumer.

In our 18 shoppings the average occupancy rate reached 98.5% in the first quarter this year, compared in 97.5% in the previous period. This solid operation growth reflects directly in the financial results of the company. When comparing with the same quarter in 2013, net income increased 16.8% with consolidated EBITDA margin at 76.4% and a net operating income, NOI margin of 86.5%.

At present, the company gives priority to the development of new projects. We are on our joint boards checking opportunities to develop innovative projects, always with a high standard of quality. The first one will be ParkShopping Canoas to be launched shortly. This is a project that will be of service to not only the city of Canoas state of Rio Grande do Sul but also to the entire region of Vale do Cienas (6:03). The shopping will be located in a region with an area of influence of about one million inhabitants.

We also want to highlight that we are about to conclude the draft project for Chaco Reparagua (6:18) in Rio. This will be the first large shopping in a neighborhood with high purchasing power and more than half a million consumers. It is also worthwhile noticing the success of the two towers of Morumbi Corporate today, with 55% of its area leased. Big companies are already in the property, companies such as Samsung, which inaugurated its offices in Diamond Tower, their new headquarters in Latin America, with an area of 16,000 square meters, equivalent to 43% of the Diamond Tower. The towers are part of the Morumbi shopping complex and is proof of Multiplan's successful real estate projects developed in an opportunistic manner. The goal is to generate more foot traffic and value creation for our shareholders. The expectation is that Morumbi Corporate will generate income of R$100 million per year when fully leased.

Finally, I'd like to share with you an extremely positive fact, which only confirms our initial forecasts. The average sales in Multiplan shoppings went up almost 15% in April, which just ended. Evidently, this is a number well above the general average for the national retail sector. I will take the opportunity to thank Mr. Manoel Mendes for his relevant contribution as a member of the company's board of directors since 2006. I want also to welcome Mr. Peter Sharpe, who was elected as a board member and José Paulo do Amaral José Paulo Ferraz do Amaral José Paulo Ferraz do Amaral who will replace myself as the Chairman of the Board. I am absolutely convinced that they will bring great contributions to our company.

I would also like to thank once more our staff, our tenants, and all that are part of this continuous growth process. Thank you to our shareholders, analysts, and journalists that follow us for their confidence and trust in this ambitious plan to make Multiplan an even better company for all its consumers.

I now hand the floor to Armando d'Almeida who will continue with the details of our financial results.

## Armando d'Almeida Neto

Thank you, Rodrigo. Thank you, Mr. Peres. Ladies and gentlemen, welcome. We will start the remarks with the operating performance on page four. This was a good beginning for sales. Sales in our shopping centers presented a growth of 11.2% over first quarter 2013, while our three new shopping centers inaugurated in the fourth quarter 2012 presented sales 35% higher than those of last year. VillageMall increased 67%; Jundiaí 27%; and CampoGrande 18%.

Among the consolidated shopping centers MorumbiShopping grew 12% and RibeirãoShopping, pushed by recent expansions, increased sales at 15%. When comparing the same basis, we also present strong growth. Same-area sales went up 9.3%, the most relevant growth since third quarter 2012, whereas same-store sales went up 8.3%, the best first quarter same-store sales since first quarter 2010. Alternating with the fourth quarter 2013, satellite stores presented a bigger growth than anchor stores, with 8.7% compared to 5.8%, highlighting (10:16), Food Court and Apparel segments.

On page five, we show on the chart on the left that the good sales performance reduced occupancy costs from 14.2% in first quarter 2013 down to 13.7% this quarter. The change in mix was lower, with 65 new operations beginning this quarter. Rent loss, in spite of being a little higher, as you can see on the picture on the top right, remained at historically low levels.

Another highlight is the occupancy ratio, which improved 1%, compared to first quarter 2013 and stayed in line with that of the fourth quarter 2013, at 98.5%, in spite of the stresses increase in area (11:18) since 2011, with five new shopping centers and three shopping center expansions.

Addressing now gross revenue growth on page six, the increase was of 15.5%. There were no significant changes to be different from – sorry. There was no significant changes to the different revenue sources. Rental rather continued to be the largest contributor, with 59% of gross revenue. Services and real estate for sale revenues presented the greatest (12:01) variations (12:01) quarter after quarter, with 29.6% and 83.2%, respectively. Parking revenue went up 17.3% as a consequence of the ebb and flow in the new shopping center Parque Shopping Maceió, the increase in foot traffic and organic growth in the new shopping centers, especially JundiaíShopping, VillageMall and ParkShoppingCampoGrande that were opened in the fourth quarter 2012.

On page seven are more details on the rental revenue, including the linearization, the straight line, the rental revenue went up by 9.4%. In the first quarter 2013, we had a one-time revenue resulting from an agreement of R$2.8 million with the store, the comparison with this quarter and causing (13:10) shopping growth to be negative. If we exclude this one-time revenue from last year, rental revenue would have been higher than 11%. The highlight goes to RibeirãoShopping with 20.2% increase in rental revenue and for MorumbiShopping with 10.3% increase.

The Morumbi Corporate Complex already contribute with R$5.6 million in rental revenue, but it still represents a small contribution to the total rental revenue line; it represented 3.4%. It's worth noting that several contracts already signed do not contribute yet the income. This scenario is starting to change and should show in the next quarters. We have as of April, 55% of the area leased, compared to 48% in the previous quarter.

We are quite satisfied with the growth in same base rent. Same-store rent was 6.8%, with a real increase of 0.9%. If we exclude the new shopping centers, real growth would have been up 1.2%. In other words, we had an equal real growth of 1.2%, up from fourth quarter 2013, which did not consider on this database the new shopping centers.

Let me explain the reason, the rationale. The shoppings VillageMall, Jundiaí and CampoGrande, which are starting now their second year in operations and are now starting to contribute also to the same-store metrics, given that they are in conservation process and the first square meter rent is lower than of the fourth quarter's average, they haven't presented real growth of rent, only nominal. Technically, this should not be considered with the same-store rent, real growth index yet.

The same is not valid to sales. Sales they grow, they conservate, they've been growing strongly since our sales, so for this first quarter of 2014 the sales improvement will have – well, it had an impact, a positive impact, in the same-store rent metrics.

For rental, since this is the first year, there's no real step-up yet. It's just nominal adjustment, so they don't have any positive contribution to the real same-store rent. They increase on top of the inflation adjustment effects.

Moving now to shopping center results on page eight, shopping center expenses are slightly higher than those of the first quarter 2013, going up only 2.6%, in spite of expansions and a new shopping center. This becomes evident with the new - sorry, with the 33.6% reduction in shopping center expenses, when compared to the fourth quarter last year, 2013. As a percentage of net revenue, there was an improvement of 90 basis points, reaching 11.5% margin, the lowest figure since a year ago.

Net operating income plus key money increased 7.7% in this quarter, with a slightly lower margin of 88%, down from 87.1% last year - I'm sorry, 87.1%, now down from 88% last year. Once again, as expected, due to the new areas that were added not only here in terms of the NOI, we have the Parque Shop Maceió, we have the two expansions that were opened in RibeirãoShopping and you also have the office towers for lease, especially Morumbi Corporate effect, as they are not fully leased, so we're still responsible for some of the common expenses. That also created a negative impact on the - a temporary negative impact on the NOI margin.

The NOI, it's also important to mention that the 7.7% increase in NOI growth is on top of the 29.1% increase that happened from the first quarter last year to the first quarter 2012. The NOI per share in the last 12 months is R$4.03 with an average growth in the last five years with a CAGR of 12.7% trend per year, so this is being repeated here, so.

Now just a few short remarks and then we move to the page nine and before talking about the EBITDA. Headquarter expenses increased 23.3%, a comparison distorted by the reversal of R$1.8 million in the first quarter of last year. Looking at the margin, headquarter expenses remained below the 10% mark, in line and in consideration of the decreases seen in the last three quarters. The 10% mark is an important reference for us. I mean, in our planning and our budgeting process, we look at it as a goal to achieve and it's an important mark to be below now in this first quarter, back to below 10% mark in this quarter.

On the other hand, the service revenues increased 29.6% and presented the highest ratio compared to headquarters expenses since the IPO in 2007, 1.31 times the service revenues compared to G&A. Another expense that is not mentioned in this slide, in this presentation, you can tell more it is in the earnings release, they are the new projects for lease expenses that went from R$4.4 million up to R$6.3 million due to the projects pipeline.

This quarter, we also had some nonrecurring revenues, again, not presented in this slide, but it is with two details on the earnings. We have some non-recurring coming from the selling of air rights, specifically in São Paulo it's called the CEPACs, a surplus of CEPACs that will no longer have the need to use and generated a positive result of R$10.4 million to us. And a positive result also coming from litigation on an agreement that we reached that created R$11.3 million result for us. It's important just to mention that this CEPAC, the air rights sold in São Paulo, we basically have 4.7 times the results, compared to the costs of the CEPACs paid a lot time ago.

In spite - sorry, all included the consolidated EBITDA increased 23.4%, with a margin of 76.4%, an increase of 115 basis points. In spite of our gross margins of 40% that we have in the real estate for sale project, which is well above the average market, if we exclude the real estate for sale that would be the shopping center, what we call the shopping center EBITDA, that would have an increase of 12.4% with a margin of 79.9%; 274 basis points better than first quarter 2013.

For analysis purpose only, if we were to exclude the new project for lease expenses, the shopping center EBITDA margin would have been up 82.6%. We like to show - and this was one of the questions on the fourth Q's call, we like to show these shopping center EBITDA margin, excluding new projects for lease that would be like a proxy of what the company - be a normal margins for the shopping center achievement of the company, if we have no growth in the pipeline.

Of course this is not the scenario. It's not what Mr. Peres just indicated, but we have growth. But just a good proxy because we are comparing currently revenues with expenses associated with future projects, right.

Continuing now on - moving to page 10 and we talk about the investments. We reduced slightly the company's leverage from 3.4 times net-debt-to-EBITDA in December of last year to 2.94 times in the first quarter this year. The company's net debt represents only 12.6% of the fair value of our properties. And this is on top of our land plot, a land bank that is registered in our inventory and, therefore, not included in the calculation of the company's fair value.

As a result of the financing plan implemented last year, the cost of that today is at 10.41% per annum, 34 basis points below SELIC at the end of March. So the cost of funding is 34 basis points inside the SELIC curve in Brazil. And the SELIC is now at 10.75% - by the end of March at 10.75%, now 11% and our average gross debt cost was 10.41%.

On page 11, the growth in FFO was 26.1% due to among other things the increase of 15.1% of net revenues off a small reduction in financial leverage, but with a higher cost of money, which we just mentioned, and the non-recurring events that were already mentioned. Margin increased 436 basis points, reaching 50%. Net income increased 16.8% and, in addition to the variables already mentioned, was impacted by a higher depreciation and amortization due to the new properties that were delivered in the past few years.

On page 12, just a snapshot of the evolution of the company margins from 2007 to this first quarter, reflecting our effort to grow in area, to grow in revenues and also to enhance our productivity, not only in a per square meter basis, that is very important for us, but also by further raising our already high margins.

To conclude, two brief pages that show our standing with regard to the projects under development. On page 13, the seventh expansion of BarraShopping in Rio de Janeiro, which will be now ready in June. And will have 45 new stores, of which 98%, north of 98%, are already leased. On page 14, the mixed use real estate for sale in BarraShoppingSul, they are basically almost completely sold and will be delivered to owners in the second half this year, enhancing the scenetic effect of the mall – with the mall.

Before we move to Q&A, I would like to note that the liquidity of our stocks, the MULT3, which presented a 25% increase in the number of shares traded in this first quarter in an average daily financial volume of R$27.7 million.

I want to thank you very much for your interest, dedication and to also our company and move back to the Q&A session. Thank you.

# Q&A

## Operator

Thank you. Excuse me. I will turn over the floor 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 very much. Well, I see there was no questions in this English version call. I try to bring some of the questions from the Portuguese call before some of the comments. But I think that two was important to highlight were one is the achievement of shopping center tenant sales in the month of April, as mentioned by Mr. Peres, of 14.93%. I think it's an important achievement, especially in light of the atmosphere and the expectations that we have since the past year on the development of retail. I think it's just a good example of resilience as we have proven with the first quarter figures, especially in the operational metrics. Now and April was just an extension – another month of our positive results in terms of tenant sales in the mall.

The second point to highlight, Mr. Peres just reminded me here as he mentioned also in the Portuguese call, is that the Canoas project and the Chaco Reparagua (29:42), the one in Rio de Janeiro, both projects that he mentioned, one in the south of Brazil in the east sector (29:47) in Rio de Janeiro, two of the projects of many that we've been working on. We have other relevant projects that we've been fully dedicated to working very hard on the blueprints, on the known client (30:02) of the mall, what we want to achieve, the innovations and making sure that we can achieve the returns that we expect to have. Those are also topics that were highlighted during the first part of the presentations today.

I want to once again thank you very much for you all for your confidence, for your trust, for your interest in our company and just wish you a very good day. And we remain available for any questions that you might have to our investor relations team. Thank you very much.

## Operator

Thank you. This concludes today's Multiplan First Q 2014 Earnings Conference Call. You may disconnect your lines at this time.