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Q3 2018 Earnings Call

Company Participants

- Armando d'Almeida Neto, Executive Vice-President And Investor Relations Officer
- Jose Isaac Peres, Chief Executive Officer
- Marcello Barnes, Chief Development Officer
- Unidentified Speaker

Other Participants

- Alex Ferraz, Analyst
- Luis Stacchini, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst
- Mariana Taddeo, Analyst
- Nicole Inui, Analyst
- Renan Kato Manda, Analyst
- Unidentified Participant
- Wilfredo Jorel Guilloty, Analyst

Presentation

Operator

Ladies and gentlemen, good morning. Welcome everyone to Multiplan's Third Quarter 2018 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.Hans Melchers, IR and Planning Director; and Mr.Franco Carrion, IR Manager.

We'd like to inform all participants that today's presentation is available for download at ir.multiplan.com.br. We would also like to inform you that participants will be in a listen-only mode during the company's presentation. After Multiplan's remarks are completed, there will be a question-and-answer session. (Operator Instructions)

Before proceeding, let me mention that forward looking are based on the beliefs and assumptions of Multiplan's 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 in the future. 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.

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Now, I'll turn the conference over to Mr. Jose Isaac Peres, CEO, who will begin the presentation. Mr. Peres, good morning. You may begin.

Jose Isaac Peres {BIO 15388489 <GO>}

Good morning, everyone. Thank you for joining us today, investors, analysts, journalists, shareholders, thank you all of you for your patience and your time to listen to us quarter after quarter. Today, I would like to begin my presentation addressing something, which is very important, very dear to our hearts, which is precisely what recently happened with President-elect, Jair Bolsonaro. I believe Brazil yesterday woke up as a new country, a country that makes us more bullish, far more excited with the outlook set by its new administration in terms of development and the economy.

In his first speech, as President-elect, we had a chance to listen to something that sounded like music to our years. Reduction in the size of the state, privatization of government-owned companies, lower taxes, reduction of red tape, trade opening to the world, deficit reduction and above all, incentive to private companies so they can deliver more. This means boosting our economy and making our society more prosperous and egalitarian.

The removal of these roadblocks per se is a significant headway to the country and raises very positive expectations to investors in Brazil and abroad.

For the last 5 years, there was a significant decrease in growth rates of the economy in Brazil. Despite all that, our company has continued to thrive. The figures below speak better than words.

Now I'm making a comparison. These 5 years, since 2013 to 2018, they were all critical times. Let me share some comparison data about this timeframe. Always comparing October 2013 to October 2018, for instance, our GLA was 710,000 square meters, I'm rounding up the numbers, and it increased to 921,000. Our target is 1 million square meters. I believe that now with the construction of Jacarepagua and expansions, we'll get there soon.

As for sales at that time, the quarter in October, the sales were BRL 10.9 billion and today, our sales amount to BRL 15.2 billion, 50% increase. The company's income also in that quarter, past quarter, if we analyze last 12 months, amounted to BRL 355 million and this year, BRL 495 million. EBITDA was BRL 643 million and today, our EBITDA totals BRL 962 million, close to BRL 1 billion, we will fast -- soon get there.

As to net debt over EBITDA, there was a reduction, it was 2.6x and today 2.19x. The company continued to grow having more revenue more income, but net debt over EBITDA went down. We significantly increased our revenue and indebtedness went down. The occupancy rate, believe it or not, remained pretty close to what it was at that time at 98%. On that occasion, that rate was around 99%, something along those lines, but 1% doesn't make a difference. I am perfectly aware that the market was dramatically affected, I was involved in meetings of many companies in the industry, but we managed to overcome these critical times very successfully.

I would also like to talk about some of our operations which showed extraordinary growth. I think gives signs of the vitality of the company, above 2-digit growth this quarter year-over-year. For example, Patio Savassi which is a young shopping center, we made some investments and already posted growth of 24.6% on sales. Shopping Santa Ursula is a shopping center in Ribeirao Preto. We had a lot of challenges in the past, but already growing by 17.6%. JundiaiShopping 11%, ParkShoppingSaoCaetano 10.3%. These figures really make us more bullish and encouraged. These are newer shopping centers, 5 years basically, but they are already posting consistent mature results to some extent requiring expansion growth giving us opportunities to increase our number of projects. And I simply have to mention one phenomenon that happened in Rio. As you know Rio de Janeiro has been through a crisis for the last 2 years, but we have one mall, Villagemall, an upscale mall, which posted growth of 8.5%. It could have been affected during the crisis, however, people-flow increased and it has proved to be an upscale mall in Barra da Tijuca neighborhood.

So like I said in the beginning, I would like to highlight to all of you that at the end of last year, we had pledged to start [Chautauqua], and despite the crisis, it is under construction. We had just finished the first lap. And we also made a decision as a company. To some extent, we have this need to show that we were really confident about our project. We also had a terrible crisis in 2008, but today, this project is doing very well. Chautauqua will begin sales, I think, it provides a lot of confidence and this population in the neighborhood is looking for areas. We have 500,000 people, high-income and they elect many services so in this sense, I think we will manage to improve the lives of the people in the neighborhood, providing leisure, entertainment, everything you know that we manage to do well.

And it's always important to say that we always exceed our facilities with each new shopping center we launch. And I emphasize now ParkShopping Canoas opened last year. And this was -- it participated in ICSC, the International Council of Shopping Centers, it was a competition and Canoas was just acknowledged by ICSC as the best design in Latin America. We won the Gold Award and this shopping center was something that we introduced with many innovations. We were bold at that time, we broke it down in 3 areas, nature, entertainment and stores, and a formula proved to be very successful and we were awarded. All the speakers at that meeting said beforehand that this would be a model for 50 years, and we anticipated a project already acknowledged to be the best design in Latin America, and now we have a chance to run for an intercontinental contest. We have no intentions to be necessarily the best in the world, but it was a unique product, a very bold project and is not to see that it is being acknowledged.

We opened the shopping center during crisis. So this is good evidence that we have to look at our consumers and think deeply what the population really desires, what people are claiming so I think, we have the right answer now.

Our philosophy as a company is to keep on innovating and pursuing the best quality and service standards, always focused on our customers. Tenants are very important, but one

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thing is a natural consequence of the rest, if you manage to meet people's needs and desires-- and I always tell people when they ask me if my business is retail or construction -- what I say is, our business is to delight people. That's what people need and this is what we pursue. We are not going to say that we're going to make people happier, because it's not in our control, but our concern is to delight people so they have a more heartwarming, joyful atmosphere and this is the model that is being internationally acknowledged.

So we continue to invest in the renovation of our shopping center, the shopping is being renovated, it was one of our first shopping centers and it will turn 40 next year. And we are doing everything we can in order to provide a new design to the city with this pioneering shopping center.

We also have other projects involving renovation, Barigui Shopping Center, for instance, will undergo an interesting renovation, BarraShopping as well. So for all these reasons we believe that the last quarter of the year and the one that ends in December may prove to be far more positive, not only to our companies, but for the country as a whole, particularly, if you consider all the guidelines set by the new administration, which match very well with what all of us expect to happen in Brazil. I wish you all, I wish ourselves and all Brazilians, at this time -- I tend to say that more important than the company is our country, more important than our company is the city of Rio de Janeiro. So the cities, the country's needs are always about our personal interests. And I'd like to say that we will have a happy ending this year with a new cycle of prosperity, growth, less violence. So I believe that now we are getting into a right path to bring a lot of economic and social progress to our country. Thank you very much, and let us wait and see what happens at the end of the year. Thank you very much.

Armando d'Almeida Neto

Thank you, Dr. Peres. Ladies and gentlemen, good morning. Thank you for joining us again in our third quarter 2018 earnings conference call. Armando speaking now. Before we comment on our operations, would like to highlight that although the events agenda has brought so many challenges to retail this year, we are proud to say that our initiatives allowed us not only to overcome these challenges but to deliver better results then in previous quarters.

It's always important to remember that the productivity level of our tenants is already quite high. And this brings continuous challenges to grow on top of a strong base and to continue our tradition to post sales growth in all 46 quarters since the company went public in 2007. In the third quarter, our sales increased 7% with same area sales and same-store sales increasing 4.9% and 3.7% respectively. This quarter, we posted the highest growth in the same basis of the year. On top of the highest growth of last year. First, making it even more relevant. Our strategy to change the mix, marketing and improvements in our properties exceeded the distraction of the World Cup, the comparison base and uncertainties about the elections. This strategy had a positive effect on our sales.

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First, lowering the occupancy cost -- lowering the occupancy cost and also increase the occupancy rate at 42 basis points totaling 97.7%, therefore increasing the demand for area in our portfolio when compared with the second quarter of 2018. Gross revenues increased 3.9% resulting from a 4.9% growth in rental revenue, 7.5% in service revenue, 14.2% in parking lots and offset by a lower contribution of Rio state sales revenue, which amounted to BR5.7 million higher in the same quarter of the previous year. Rental revenue increased mostly due to same-store rent 4.1% and the contribution of new areas like ParkShopping Canoas at a higher merchandising revenues in our shopping centers. The real growth in same-store rent on top of inflation adjustment was 2.3% maintaining the real growth recovery started in the second quarter of 2017.

Please note that this growth is also followed by a drop in delinquency both growth and net delinquency. In terms of expenses, shopping center expenses were 18.7% below the third quarter of 2017 despite the 7% increase in GLA year-over-year. G&A expenses went up 11.8% and here we highlight the growth in our digital innovations team and also the cost to establish the fiscal council. Share-based compensation expenses totaled BRL1.6 million lower any other previous year due to mark to market.

Moving now to our results, our net operating income NOI went up 10.8% with a margin increase of 316 basis points, totaling 89.9% in the third quarter, close to 90%. Our EBITDA increased 25.5% with a margin of 74.7% and a strong growth of over 12 percentage points. Our funds from operation, FFO increased 44.3% expanding its margin over 15 percentage points totaling 57.4% supported by our operating performance, lower financial expenses and better provision of share-based compensation.

Lastly, our net income increased 54.1% totaling a BRL116.4 million of the quarter and BRL360.3 million in the first nine months of the year. Therefore, getting close to the amount of BRL369.4 million that we generated as income in full year 2017. At the end of the quarter, net debt over EBITDA ratio was 2.19 times as Dr. Peres said and the average cost of gross debt remained flat at 7.65% per year.

In September, we announced another distribution of interest on capital of BRL80 million, which added to the announcement in June totaled a BRL190 million interest on capital announced this year to date. This quarter our CapEx totaled BRL46.1 million primarily driven by an investment in a new shopping center Park Jacarepagua at BRL227.7 million to-date. We keep on growing and improving. And now with this new chapter in the history of our country, we remain optimistic and ready to deliver even more.

I'll stop here. So we can start the Q&A session.

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Questions And Answers

Operator

We will begin now question-and-answer session. (Operator Instructions) First question from Alex Ferraz from Itau BBA. Good morning.

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Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Peres and Armando. Thank you for this call. I have two questions. My first question is, if you think about delinquency, we can see there is a gap between gross and net delinquency here. Could you assume the company is trying or needs to recover overdue receivables? Do you think tenants are, by now, more encouraged with these receivables? Or if you think about the spike in delinquency owing to the truckers' strike is just about to recover? And the second question is about the breakdown of same-store sales. If you think about services more specifically, for three quarters, approximately, the activity is weaker. Is this one-off, I mean, the movie theater or could you assume that perhaps there is a saturation, because we had a lot of change in mix of services and now we are at a maturity time having an impact on same-store sales?

A - Armando d'Almeida Neto

Alex, Armando speaking. Thank you for your question. About gross and net delinquency, I think you helped us to answer this question. Naturally, if we consider month-over-month, in May, owing to the one-off event, there was a stronger delay and this has been diluted over quarters. For 1 or 2 months things are getting calmer. June would have been different than May, but there was an impact or -- in terms of delinquency. Added to that, there is also an increase in sales. Our tenants were excited, I guess, the whole country is more excited and higher sales show this very well. think about August and September, they were very positive. June, still tough owing to the World Cup effect. Now answering your second question about movie theaters, I'm not an expert on this, but the season, the movie season was not as strong, I believe. However, we also had many distractions, which eventually made people stay home. The World Cup for instance, every 4 years, spectators spend more time at home. Now if you think about other segments, in services, for instance, like drugstores, they have performed well. This quarter more specifically the performance was not so significant and the share is around 20% of total sales, including services and leisure. I don't attribute this necessarily to the expansion of a service area. I think it's simply a natural cycle of performance in different segments. Okay?

Q - Alex Ferraz {BIO 19294308 <GO>}

Great. Armando. Thank you.

A - Armando d'Almeida Neto

Thank you.

Operator

The next question is from Luis Stacchini from Credit Suisse. Luis, good morning.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning, everyone. Thank you for your presentation. I have two questions. Firstly, I would like to better understand how excited you are about the rents? This quarter we can see a lower occupancy cost for a third quarter since 2008 and delinquency close to zero, the sales dynamic improving a lot. How do you see this dynamic of rent growth? We know there will be a higher inflation impact, but you've been trying to maintain the real growth in rents, particularly now when we expect to see a slightly lower turnover because delinquency or the occupancy rate is already at nearly flat levels.

Could you give us some color please, it would be very interesting? And secondly, Dr. Peres, could you make some comments about the upturn of investments in real estate development? We know Multiplan has a lot of property in the South close to BarraShopping so some companies, developer companies are investing there with good performance, sales deed with very good -- Multiplan sales in real estate development also have a positive volume again, so could you give us more information about your strategy in the development segment? Thank you.

A - Armando d'Almeida Neto

Luis, good morning. Armando speaking. Let me begin by answering the first part of the question and Dr. Peres will answer your question about investments and real estate development. In terms of rents, to answer your question more directly, the question is yes, we are more excited about rents and let me tell you why, let me give you the reason.

Firstly, if you think about inflation, inflation going up, we also have an effect of IGP-DI, which is the coupled of IGPM in the year. So this will be passed on over future quarters and if you add to that the fact that we have a growth in sales. At the end of the day, we can have a very beneficial environment in terms of rentals.

Second point, we already have a huge number of leased stores already paying condominium costs with a positive impact on the occupancy rate. So these [technical difficulty] we expect some of these stores to be ready to sell, not immediately, but early next year and then we are going to have better productivity, both in terms of sales and rental. Now, I'll turn the floor to Dr. Peres to answer your question about real estate development.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Luis, Peres speaking. Let me answer your question. The company has approximately the 1 million square meters as land and we estimate that this 1 million -- if we think about, if we are conservative, the occupancy rate usually 2 times the size of the land, this is quite modest. We can do 1 times the area. Naturally, it doesn't happen overnight, however, in recent times, we had this feeling there was a huge inventory of land for sale, termination and the market had to absorb it. The market should be stable. And we have to think about credibility. Sometimes there is uncertainty, people don't want to invest so much.

And I go into Sao Paulo, Rio, Miami, Portugal, people do think about these things. So we always work with an upscale [technical difficulty] people who felt uncertain, who were hit by instability and now with the current guidelines, we expect to see an upturn. We have several projects ready to roll. All we have to do is to put them into practice. Naturally, being careful enough and not trying to sell a higher volume compared to demand, but this development activity is supplementary to what we do. We always want to integrate our shopping centers with other services like offices, hotels, hospitals, a set of other activities.

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So I would say that we purchase land at a very low cost in the past, so we expect to have a big profit margin once we work on these projects. Termination is something that blocked the real estate market, much more than recession I would say. What really made the real estate market bankrupt was just closing the eyes to a law, a federal law approved for certain constructions for 50 years and then suddenly we have this thing about termination. So this is somewhat based in consumer protection, however, purchase and sale of real estate was addressed as a consumption good. How can you have the same treatment from land and the fridge for instance.

So this market with a large inventory was mostly absorbed, prices plummeted and chances are now there will be a recovery in added property values that were hindered for a while. So now, we can be very profitable with what we have, but we will remain cautious. We have amazing projects in the pipeline. It is not more of the same. Very creative projects and designs based on the market's expectations. So this is our positioning. We are going both ways but naturally focusing more on income and also benefiting from real estate development as an additional means to be in sync with our projects and generate additional income, which is always nice to have profit from purchase and sale of land.

We had some projects and if we decided to sell them today and to accept proposals, perhaps you would have 1 billion as profit, but we don't want to kill the chicken off the golden eggs. We want to keep on being where we are safely. And if our pension would not be enough, at least, we can have the income guaranteed in our turn. Thank you very much.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you, Peres and Armando for your questions. Have a good day.

Operator

The next question is from Nicole Inui from Bank of America. Nicole, good morning.

Q - Nicole Inui {BIO 17757166 <GO>}

Hello, good morning. I am Nicole from Bank of America. Thank you for all your presentation. I have two questions. The first question is about rental revenue. For some shopping malls it was slightly weak, there was a slight drop. I'm referring to BarraShopping, New York City Center, BarraShopping so was there any reason for this drop in revenue? For some shopping centers, the occupancy rate remains very high. So this is my first question. The second question is about delinquency level. It was very low, like we said before, for the third quarter and I'd like to know more about next quarter, next year. Do you think there is room for a further drop or do you think it has already reached the historical level as far as delinquency is concerned? This is my question. Thank you.

A - Armando d'Almeida Neto

Nicole, thank you for your question. Armando speaking now. As in your first question about rental revenue, my answer is that the main driver is the change in mix. And within this

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change in mix, we also have something specific, the exit of a big anchor store, fenock [ph] which left the country and several of our shopping centers, actually seven shopping centers we had this change in mix, change in areas and the vast majority of these areas are already repositioned and future productivity is expected to be even better, right now we are renovating the areas in order for other tenants to work on their own stores. So that's why we have this gap between change in the mix, getting the store renovated the area after fenock's exit. This is the main reason.

Naturally, we are speaking of low inflation environment. We were passing on inflation, if I'm not mistaken this period, it was 1.8%, still very low, but any changes will make a difference. As for delinquency, the answer is, we will always do everything to improve the picture, particularly, when we think about a more positive scenario owing to sales with a better operation atmosphere. I see it as a benefit. So we can have even lower overdue rates. We will be working in this direction.

Q - Nicole Inui {BIO 17757166 <GO>}

Great. Thank you, Armando.

A - Armando d'Almeida Neto

Thank you, Nicole.

Operator

The next question is from Luiz Mauricio Garcia from Bradesco. Mauricio, good morning.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good morning, everyone. I have two question. Would like to better understand this stronger interest by tenants. I think there are many indicators that you highlighted like lower delinquency, increase in occupancy, higher interest. Just to better understand this move, right now, what about the new tenants that are coming in and have allowed lower occupancy in this pipeline? Do you think these tenants are mostly those who already making this decision-making process and which are now moving forward or can we see new tenants and new groups, new groups that are becoming more interested unlike in the recent past.

Just to better qualify and to know if this is a first wave with a second wave still to come? Second question is about growth. Coming back to this topic, just want to say that I think was not mentioned, but we talked about greenfield expansion, a significant possibility to grow, right? So what about this new scenario and how does it unblock several expansions that you already have mapped and even the shopping model B in Sao Paulo? Can you tell us more about expansion not only your appetite to move forward, but perhaps conversations with interested tenants?

A - Armando d'Almeida Neto

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Luiz, Armando speaking. Thank you for your question. First of all, there are many factors to take into account in my opinion, factors that improve the occupancy rate. First of all, like we say for a while, I apologize, the expression in English, but it's slight apology. Sometimes tenants want to be online, off-line, but in the areas where they can be highly productive. In the online world, they would like to be in marketplace, websites, where they can sell a lot. And the same goes in brick-and-mortars. They want to be where they can sell a lot. We can see that our shopping centers are performing very well. Improvements, physical improvements that was made and also changes in mix, particularly in the segments, we are improving productivity, boosting energy, bringing more people-flow.

So at the end of the day, it is a virtual cycle, bringing new tenants that perform well as extra one. Basically we're speaking of the same tenants. They select where they want to be in their portfolio management and we also think about new store models. Some stores are concept stores or bigger stores, stores where consumer can have a unique brand experience compared to simply getting into the store, buying and leaving. They want to try out new products, they want to know more of the store so this is what you see as coming in as something new.

However, segmentation is very different. Like Dr. Peres said before, our shopping center model compared to the US, I think we are ahead, again, changing segmentation, making physical changes to our stores in order to meet the demands of consumers of the future. We see these trends and I think this brings good results. As for expansions, we are very excited, we've always been very excited. Even in more recent times, we never stopped expanding. If I'm not mistaken, we had five or six expansions for the last two or three years, am I right Marcello? Significant expansions and we're still working on further expansions. Not only what we want to place in our segmentation or bringing a more modern atmosphere as well considering worldwide consumers. And in parallel to that, we are going through approval processes as well, but we are very excited. As we know, we have 450,000 square meters for future expansion in our projects and we want to make them happen as soon as possible, as soon as we have the approval, naturally, but also a demand for healthy space.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

So just to connect the dots, flight to quality, I think this is very clear, flight to quality, exclude an expansion. So connecting the dots again, do you want to see a second moment of expansion in retail so you can combine both and few more comfortable. Is my reading correct?

A - Unidentified Speaker

Luis, Macello is going to make a comment. It is not only a matter of flight to quality. Some tenants also benefited from the occasion to expand when they had a chance, they have access to amazing points. I think it was a great opportunity.

A - Marcello Barnes {BIO 15388510 <GO>}

Marcello speaking now. Curitiba for instance, Barigui, this shopping center is growing consistently and also at very healthy levels for a while. And now it has proved to be ready

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for expansion. So we have a third floor approved and it will be the first in the line to be launched next year. ready to start rents. So it will be ready for the next 24 months. Morumbi is also been approved for a big expansion. Sao Paulo takes longer to approve things, but we guess, we believe we have an improving six months, which is another idea of immediate expansion. Marcello, just adding, it is not more of the same, but adding new experience to consumers, adding more pleasure, satisfaction. Sometimes that is naturally more attractive. In Curitiba, we have a medical center for instance and also restaurants. I have several different activities, green areas, rooftops. It's a unique project to bring new things to the shopping center.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Great. Thank you.

A - Marcello Barnes {BIO 15388510 <GO>}

Thank you.

Operator

The next question is from Andre Mardini [ph] with Citibank. Andre, good morning.

Q - Unidentified Participant

Good morning, Dr. Peres. Good morning, Armando. Thank you for your call. My question is about digital innovation. I guess, it entails 20 people. Now, if you think about Fulllab of an R&D investment, is there a competition for digital marketplace? You said you also want to be in the best marketplace. So what about this? I would like to better understand the difference between Fulllab and digital innovation area within Multiplan?

A - Armando d'Almeida Neto

Andrea, thank you for your question. Fulllab is a software provider. It is independent, but for us, it helps us with software development, supporting our business as usual. With shopping centers, there is no competition with our digital innovation area. Our digital innovation area is very different. We have a lab, ready tests about consumption, consumer influence, consumer convenience. We also have a critical area for marketplace and we want to work on sales as well. In order to add more convenience to consumer's homes, and we also check more detailed opportunities for investments. There is a multi-dynamic aspect and it doesn't compete with Fulllab whatsoever. Fulllab has investments with Multiplan and it provides software solution for us.

Q - Unidentified Participant

Great, Armando. Just to follow-up about timings for the marketplace. We have several competitors (inaudible) and others, which mention our roll-out for early next year, what about the timing?

A - Jose Isaac Peres {BIO 15388489 <GO>}

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Andre, this is Jose Isaac Peres speaking. So how do we take this challenge about digital and brick and motors. We perfectly know that consumers want malls in the main areas. The major points of the city, so goods and services can be provided more efficiently. In our real world, we've been working for three or four years. On IT, in order to take the shopping center to consumers homes. In other words, BarraShopping at home in your own home. you can see the stores for instance. But how can we make it feasible. What we want is to add convenience to consumers, because when you make other people's leisure, you don't make yours more complex. So how can I better creator to current customers' needs. And also newcomers those who can visit us all line, so that's our first concern.

Secondly, we want to give our tenants a new distribution channel, a software platform and naturally this will allow to have savings as well. Our intention is not to have additional fees. Our tenants, we want to offset this cost, but our main goal is to add value to our assets. So they can be more feasible, they can be more present adding convenience, you know, the other hand. We also expect that -- well, there is no such a thing as doubling sales over night. But we believe this might have an increase of 10% or 15% of sales, which is already quite good. So our operators and particularly our customers may have a better quality service. We've been following the digital world for many years now. We can see e-commerce companies with extremely high levels in term of price and profit.

But, we have to continue in our real world, innovating inside our real world bringing more experience to our consumers. Recently, we were awarded with this amazing price and from Latin America in one of our shopping center. It's not so big, that owing to its innovation, it was considered to be the best shopping center in Latin America. We believe consumers today, wants something different. They are no longer interested in having this close box. They want to have outdoor experience, leisure entertainment, few welcome good service. And at the same time, we improve the quality of our facilities.

So, I believe our company was successful despite the crisis. Because we only focus on top quality. We cannot do things without taking quality into account. We're not going to have a timeline. We already had a bolder timeline. But this market has plenty of opportunities to innovate and sometimes you better step back and we work your plan. So right now, I would not like to make any promises about our timeline, even though we have a dedicated team to do that.

A - Unidentified Speaker

Perfect, Armando and Peres. Thank you.

Operator

The next question is from Marcelo from JP Morgan. Marcelo, good morning.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. Thank you for taking my question. Two questions. First, could you tell us more about the breakdown of revenues, parking lot revenues, 14% [ph] growth year-on-year? And also I would like to understand better what's price, volume and also your

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expectation for October and the fourth quarter and a strong volume in terms of recovery? As for same-store sales, could you tell us more about the month-on-month level and any color about October, so we can have an idea of how things are unfolding?

A - Armando d'Almeida Neto

Marcelo, Armando speaking. Parking lot revenue was -- there are three factors here. I cannot tell you precisely the percentage in each one of them but there was an adjustment early this year. So compared to the third quarter of last year, we posted growth and also flow through the new areas and we highlight ParkShopping Canoas but also the expansion in Ribeirao Preto shopping center and Patio Savassi. And also flow growth in the same shopping centers or the same parking spaces. So to speak there was real growth not real growth. But in terms of people at cars but a growth in volume in the parking lot flow. That in general, perhaps in a couple of shopping centers it might be lower but overall speaking, it was very positive. It just reminded me, it was additional 3% net of new spaces.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you. Can you tell us more about same-store sales?

A - Armando d'Almeida Neto

I didn't want to say this, I didn't want to speak much about October, because we are talking about the third quarter. So let me tell you about the third quarter. July was negative, as expected with World Cup, high base, third quarter last year was the best quarter in terms of operating performance, both on a nominal basis and same-store basis. And August was a good surprise. We thought August would show recovery. Recovery was very strong. And in September, we also had good month not as good as October though, but still very strong. But October, just answering your question, I cannot give you any figures, but the first two weeks in October were slightly slower, always positive, but slower growth and in the second half, stronger.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you, Armando.

A - Armando d'Almeida Neto

Thank you, Marcelo.

Operator

The next question is from Mariana Taddeo with UBS. Mariana, good morning.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Good morning. Thank you for taking my question. I would like to understand more about the current level of EBITDA margin. If you think about last 12 months and compare to previous years, it is way above. I would like to understand if this margin is sustainable or if there is further room to lower cost down the road? Thank you.

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A - Jose Isaac Peres {BIO 15388489 <GO>}

Mariana, thank you for your question. In terms of margins, if you think about long-term, there is room to increase the margin because newer shopping centers, we tend to joke, it takes five Christmas to consolidate and the five Christmas were like a rollercoaster. New shopping malls, if we think about growth scenario in the country, they can grow, consolidate, posting even better results with a positive impact on revenues. And as they grow over time with more stability, more funds, they won't need much to promote the Projects. That's a positive impact on NOI and EBITDA margin. More specifically about EBITDA margin, we have to compare with last year mark-to-market for instance and the share-based compensation. It took a lot of margin related to depreciation of shares creating big provisions last year.

And eventually there was a drop in shares. And this year we had the opposite effect, a positive impact of margin so think about a comparison to last year. Over the years, when you think about long-term, that you can see there was strong growth. In our reports, we have an indicator known as adjusted EBITDA. By the way, there is a footnote explaining what it's all about, it is net of share-based compensation in order not to raise distortion. This quarter with expenses -- later we will share 1.6 million compared to the previous quarter, which was higher if I'm not mistaken, 24.5 million , there was a growth of 166-basis points. Adjusted EBITDA margin by compensation expenses. In other words, net of the third quarter of last year growth would be 75.2% in May showing that the operation, if you think about mark-to-market, share-based compensation, at the end of the day, it was very positive.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Thank you very much.

Operator

The next question is from Renan from Santander. Renan, good morning.

Q - Renan Kato Manda {BIO 16845063 <GO>}

Good morning, everyone. Thank you for taking my question. My question is about finoc [ph] store exit. Have you mapped the impact of finoc on sales. Sales already had a significant impact this quarter, but could have been even stronger perhaps? My second question is about what was already rent after finoc exit? Was there any replacement with other anchor stores?

A - Jose Isaac Peres {BIO 15388489 <GO>}

And I apologize, we couldn't hear you well. Would you mind repeating your question please? I know you wanted to know about finoc? [Technical Difficulty]

A - Unidentified Speaker

The next question is from Jorel with Morgan Stanley.

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Q - Wilfredo Jorel Guilloty

Good morning, everyone. I have two questions. First of all this, quarter, class A shopping centers performed better than class B. Do you think they will be a difference in the performance of the portfolio of shopping centers driven by quality in the future?

A - Armando d'Almeida Neto

Good morning. Armando speaking. Could you repeat the second part of your question, Jorel? [Technical Difficulty]

A - Unidentified Speaker

The e-commerce competition. So they continue to grow too attractive, however, because your upscale or class A it doesn't mean everything, it's far more important to have more attractions, to be more efficient with new leisure, entertainment and service areas. Naturally, in a shopping center you always know when you open it, but you never know when you end. Some shopping centers for instance are always claiming for new expansions. We start with 20,000 meters then you can have 100,000 meters, so this construction is known as corporate. These strong shopping centers, which are top-quality will always be like a monopoly.

In terms of -- answering your question, we really want to have more contacts here. My theory is that people are the greatest attraction at a shopping center. If you think about the IT world, the more power you give to human beings, more isolated they become. So what I can see is that people are more needy. They need more contact. In Brazil, more specifically, shopping centers have meet this gap. It's a place where you can be safe and have some free time, see other people. So we expanded our assortment of entertainment, leisure and events. 40 or 50 years ago, when I started the company, I already thought a lot about this. If you don't have attractions, entertainment particularly, for children, sometimes, family don't come to the shopping centers so our model has proven to be successful, it's been acknowledged.

And as for acquisitions, et cetera, we are acquirers so if anybody is willing to sell a good shopping center, we'll go for it, but we are not going to buy a chain of shopping centers if you have only one, which is good. What really prevails is good quality, the search for top-quality services not only shopping centers, but in all activities. Anywhere in the world, Jorel, you know this market well. Any Class A has a low cap rate. If we add to that, that we can see changes to the market. When you physically have to change the shopping center and not only adding online, but also changing and renovating brick-and-mortars.

At the end of the day, you have to pay a lot with additional investments to make this venture more attractive. This is part of our DNA. We want to start from scratch with a vision of the future, planning for the future so we can see a big opportunity to develop new shopping centers as the main strategy right now. Well, Dr. Peres said, we have the right balance sheet, our capital structure allows us to do it, but we always want to think about alternatives, but always sticking to the principles of the company. Our main competitors will be shopping center companies that have the same purpose as ours, and not only folks sitting on funds right now. That's how way I see it.

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Q - Wilfredo Jorel Guilloty

Thank you.

A - Armando d'Almeida Neto

Thank you, Jorel.

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Operator

This concludes a question-and-answer session. Now we turn over to Mr. Jose Isaac Peres for the final remarks. Mr. Peres, you have the floor.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Thank you very much. I would like to thank you very much for your time and your patience today. We just wanted to go deeper into our discussions today. There were many very good questions, but I would like to say, that our greatest excitement about our business and particularly about Brazil is that our country now is in a path towards growth and prosperity at least based on the preliminary guidelines announced by the President-elect. We wish all the best to this new administration. That's a project for generations to come and a better Brazil. Thank you very much.

Operator

Thank you. This concludes today's Multiplan Third Quarter 2018 Earnings Conference Call. Thank you for joining us today. Have a great day.

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