Q2 2012 Earnings Call

Company Participants

- Armando d'Almeida Neto, CFO, IRO
- Rodrigo Krause, IR Superintendent
- Unidentified Speaker, Unknown

Other Participants

- Guilherme Assis, Analyst
- Hall Jones, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon. Welcome, everyone, to Multiplan's Second Quarter 2012 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO, Mr. Armando d'Almeida Neto, CFO and IRO, Mr. Marcello Barnes, CIO, Mr. Rodrigo Krause, IR Superintendant 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 would like to inform you that this is actually recorded and all participants will be in a listen-only mode during the Company's presentation. After Multiplan's remarks, there will be a question and answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention forward-looking statements are based on the beliefs and assumptions of Multiplan Management and our information currently available to the Company, then go risks, then uncertainties because they relate to future events and therefore, depend on circumstances that may or may not occur.

Investors should understand the conditions related to the macroeconomic scenario industry and other sectors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Rodrigo Krause

Good after -- good morning, everyone. I'll read the speech of Mr. Peres. Ladies and gentlemen. good morning. First of all, I would like to thank you for your presence at this conference call to comment on our Second Quarter 2012 results.

To start with our presentation, I would like to highlight the strategy we're pursuing and the challenges ahead. Some of you are with us since the IPO in July 2007. On that date, we took upon ourselves the challenge of doubling the size of the Company in five years.

Five years later, there are many good reasons to celebrate. The market cap of Multiplan increased from BRL3.7 billion to BRL9.2 billion more than doubled and almost tripled. Our EBITDA increased 231% and net income went up almost 1,700%.

Multiplan stock price went up 104%. Since the public offering, we've invested BRL3.4 billion which includes seven shopping center Greenfields, two shopping center acquisitions, 14 Brownfield expansions on existing malls. We raised several office condo and residential towers for sale and leasing as outlined in our strategy of mixed use projects. Some of these projects are about to be delivered. All of this was done with criteria and responsibility.

We've maintained a comfortable level of ineptness which led Multiplan to be awarded the investment grade rating by Standard & Poor's, one of the 37 Brazilian companies that have reached this level and the only one in the construction, engineering and real estate industry.

For the third time this year in the Valor Economico newspapers, 12th Edition of the brand new Valor 1000 Award, Multiplan was one of the 25 most relevant companies in the most relevant industrial sectors.

Also outstanding are the results we are disclosing now. In the Second Quarter of 2012, our EBITDA increased 12.4% and FFO went up 16.2%. Sales in our malls increased 14.6% in the period and rental revenue 17%. The focus in the next three months will be on the delivery of the projects being concluded. The VillageMall in Barra da Tijuca and Park Shopping Campo Grande, both in Rio de Janeiro and JundiaiShopping in Sao Paulo right on schedule.

Tenants have their spaces delivered to begin working on their stores and all three will open to consumers between October and November 2012. Together with these malls -- sorry -- together these malls will add 102,000 square meters of GLA, a 17% addition to the current portfolio. In the coming months, we will deliver two corporate towers for lease in ParkShopping in Brasilia, along with a condo office building integrated to RibeiraoShopping.

For 2013, we have scheduled the delivery of ParqueShopping Maceio and the two towers of Morumbi Corporate, a project with a lead silver certification with an area that exceeds 74,000 square meters. In the meantime, the expansion program at RibeiraoShopping moves ahead with new store areas and a parking deck.

And for 2014, we already have a pipeline with the condo/office tower and the residential building in Porto Alegre, both integrated to BarraShopping too, along with the expansion at BarraShopping in Rio de Janeiro also in the same year.

I would like to call your attention to the delivery of such an extensive leasing area scheduled for the next 18 months, which points to a significant increase in our cash generation long-term. If we add the shopping centers to the corporate towers, we will be adding 247,000 square meters to Multiplan's portfolio or 42% of an additional leasing area.

The focus on the projects being delivered has not stopped us from keeping an eye on the future and new developments underway. To do this, we have a land back of about 619,000 square meters in addition to the expansion potential in existing shopping centers and land recently acquired. In these five years as a publically traded company, Multiplan has grown on average 15% per annum, solidly and consistently and will be explained by Armando.

The stock quote for our shares has more than doubled in the same timeframe in which the Ibovespa has barely moved with an appreciation of 0.2%. We are proud to deliver what we promised and look forward to be able to exceed expectations in years to come. I thank you once more, ladies and gentlemen. shareholders and analysts. I also pay my respects to the diligence of our management and team, our greatest asset.

I will ask Armando to take over and give you more details of our results. Thank you, very much.

Armando d'Almeida Neto

Thank you, Rodrigo. Thank you, Mr. Peres. Ladies and gentlemen. good morning. We are going to start our comments on page three of the presentation. The comparison of sales on the same basis showed again a strong growth and in line to what we saw last year when growth in same store sales was 7.6% and same areas sale of 8.9%.

And also, it's in line with the last two quarters, Fourth Quarter '11 and First Quarter 2012. We emphasized the strong growth especially when compared to the already high figures of the Second Quarter 2011.

The Second Quarter last year was the highest 2011 than -- I'm sorry -- the Second Quarter was in 2011 the one to show the highest growth in the same area of sales of 10.3% and now, in the Second Quarter of 2012, we present the same source sales of 8.1% and same areas of sales with a continuous improvement in the mix of our portfolio growing even more at 9.5%.

So we are growing on top of a very already high base of comparison. Nominal sales grew 14.6% this quarter and surpassing by much the growth of the national retail sales in April and May as measured by the National Institute of Geography and Statistics in Brazil. It was

8.5%. This fact confirms the expectations of a higher market share of the shopping center industry in the national retail markets in Brazil.

Another way to show the global sales growth in our portfolio is by means of the increase of 44.5% presented by the average of percentage ramp that we -- that we will be discussing shortly.

The highlights for this quarter, we have a Shopping Santa Ursula and ParkShopping Barigui with sales growth of 15.9%, both at 15.9%. DiamondMall and BarraShopping Sul with 14.1% and 14% respectively. And BH Shopping with 12.5%. Shopping Vila Olimpia comes right after with a sales increase of 11.8%. Important to highlight at the continuous improvement in -- of sales that we see in Vila Olimpia as a result of the ongoing change in mix.

Moving on to page number four, we want to highlight a few operational figures, the demand for space remains strong. There are a couple of cross is in line with the Second Quarter of 2011 and below the historical average helping the delinquency and losses in the rent payment show historical decline.

I mean, a strong improvement with the lowest levels since 2007 when the Company went public. Still on the occupancy rate, Vila Olimpia increased from 83.1% in the First Quarter 2011 to 87.8% this quarter. Santa Ursula went from 82.6% to 86.7% and ParkShopping in Brasilia increased occupancy by 1.1%, now at 96%. Both malls, I mean, Brasilia -- ParkShopping in Brasilia and Santa Ursula, they went through centralization process. It's the largest stores that was transformed into smaller space.

The average rate over the quarter and -- I'm sorry -- and the average rate over the quarter was 97.8% compared to the 97.2% as an average for the First Quarter. If you get the figures by the end of June, you will see even higher figures in terms of occupancy.

Moving forward to the slide on shopping centers operation on page five, the Company gross revenue grew 21.2% and after the strong contribution of revenue from the real estate sector for sale in the First Quarter of this year, we are back to our normal course where rent is our main revenue and grew 17% over the same quarter last year. This was due to a combination of new areas with the opening of Parkshopping Sao Caetano with the same store ramps surpassing the 10% mark for the seventh consecutive quarter. In fact, was 10.4%, a still strong growth up to seven quarters in a row.

Also, noteworthy is to highlight the 3.9% growth on top of inflating -- on top of inflation for the IGP-DI effect in line with the previous quarters. Once again, this is the fifth quarter in a row with real growth of 3.9% or even better. Shopping Vila Olimpia presented a rental revenue increase of 22.7% when adjusted to the 60% stake that we have today again to what we had last year.

ParkShopping Barigui grew by 17.6% while rent in BarraShopping Sul increased by 13.4%. Then I will say, quote, consolidated, unquote BH Shopping and Morumbi Shopping had a growth in rental income of 12.5% and 12.3% respectively. That impressed me a lot to see more of it over 30 years in operation. It means that we recently expanded BH Shopping in 2010 and still growing (inaudible) space.

Services revenue grew 24.6% this quarter. It was risen by the better performance of our malls and also the addition of new areas specifically ParkShopping Sao Caetano. We highlighted benefits of scale in services revenues, especially when considered the new malls that are scheduled for delivery this year. When compared, services revenue was equivalent to 125.6% of the general and administrative expenses.

Summarizing the slides on shopping center operations -- I'm sorry -- summarizing the slides on shopping center operation. Once again, in the Second Quarter we present a consistent growth of sales and rental revenue with a high occupancy rate which only reaffirms the reason for having a high quarter portfolio.

Let's start then the results section on page six, please. Shopping center expenses increased by 20.2% when compared to the same quarter last year. This was pretty much expected because of the new area expansions added at the end of last year and consequently a temporary increase in vacancy and timely contributions to promote the developments. Nevertheless, growth in NOI plus key money was of 16.2% and the margin remained literally unchanged at 87.7% against 88.1% in the same quarter last year.

On page seven, we show a well behaved headquarter expenses that grew only 5.5% while the Company's net revenue increased 20.9%. Our efforts to be prepared to grow to deliver new products, and I mean by that in terms of the team work or staff that we have, and at the same time keeping G&A expenses under control, has a clear result the continuous reduction of G&A expenses as a percentage of net revenue.

Here, the scale effect is also important to further increase the efficiency of our company. And once again, to highlight the importance for us that is to get prepared to deliver our announced projects on-time to have the team dedicated to be able to have our commitments, our planning delivered on time -- delivered as announced.

Shopping center EBITDA was BRL122.8 million and up 12.3% with a margin of 69.1%. As we approach the opening of the three new shopping malls and two office towers and announced the new expansions recently, we incurred in a significant increase in preoperational expansions of products for lease.

It was 11.2% -- BRL11.2 million. In fact, we had already shared these expectations in previous quarters and why to bring that again? Why should we bring that now? Because of the impact it had on the EBITDA margin. If we exclude those one-off expenses and relate it to new projects, the shopping center EBITDA margin should be of 74% -- 75.4% and increased to BRL134 million, a 19% improvement over the last quarter.

To finish the reviews and results on page eight, we showed the growth of funds from FFO, the funds from operations of 16.2% reaching BRL93.9 million in spite of the increased leverage of the Company that went from 1 time to 1.55 times net debt through the less of months EBITDA.

At the fall of the last 12 months per share came to BRL2.72 presenting a composite average growth rate of 19.7% per annum for the past five years and noting that we did not start from small footprint. We did not start from BRL0.20 but from BRL1.11 per share when we IPO the Company back in 2007.

Net profit was of BRL63.1 million, an increase of 3.3% and accumulating BRL188 million in the first six months of the year, a 50.3% increase in this first six months when compared to the same period last year.

On page nine, we talk about the Company indebtedness. We have already mentioned the increase in leverage due merely to the significantly investment made during this half of the year of being BRL355 million in the development of new shopping centers, another BRL53.8 million in shopping center expansions, out of a total of BRL643 million invested in the first half of 2012.

Our net debt should continue to rise as we invested in announced projects. On the other hand, we will keep it a level that allow us to continue to announce new projects and to be ready to take advantage of opportunities. We have increased our exposure to the CDI, the interbank rates in Brazil, to benefit from the reduction in the basic interest rates. The average costs this quarter was 9.98% per annum and we expect to see further reductions of this cost over the year.

If we use the new reference base rates of 8% per year and the new long-term TJLP is the rate used by the development bank in Brazil of 5.5%, came from 6% to 5.5% in July, the nominal cost of debt would fall approximately 50 basis points to 9.49%, 9.5% per annum. We have financing agreements not yet disbursed of BRL240 million and we are evaluating new finance loans to cope with the recently announced projects.

Let's move to the next page of number 10, which we show in summary in a summary form the products for lease that we have and which I will make just a few moments. By the way, we have on the next eight pages many pictures of our projects. So just to try to help the teleconference and you know cannot see the real assets of just -- to give an idea of the graphic stage of construction, the quality that we have in portfolio, what we'll be adding to our portfolio.

So it's important that our products, as I mentioned, they are on-time and according to planned delivery schedule. We have already delivered space for trying to get the store ready in three of our new malls that will be delivered this year, Jundiai, Campo Grande and VillageMall. There is a strong demand for space which remains strong. They're encouragers to announce new broader project expansions and other Greenfields as an example.

If we then jump to page 19, please, with the announced quarters only, we will have an increase of 50.7% on GLA by the end of 2013. The expansion of BarraShopping that will open 2014 opens the calendar, opens the year for new product. So hopefully, will be announced in new projects that we will add to that in 2014. But just to represent the meaningful significant increase we have in GLA by the end of next year.

On the last page, on page 20, we show the real estate products for sale that are under construction right now and that despite the high percentage that was already sold presented a 3% increase in the perceived sales value for the Second Quarter over the First Quarter.

I will stop here but just before a brief comment on NAV with the updating quarter our NAV and this quarter we had an increase, give or take, of about BRL600 million when compared to the Fourth Quarter of last year mainly due to the improvement in NOI that we had in our malls, the CapEx invested in our new developments.

In my last comment on the five years mentioned by Mr. Peres, there were many improvements in our earnings release. We have more details, not just improvement in terms of market, but cap and the price of the stock but also improvements on liquidity, a significant increase in the liquidity of the stock, normally it's measured by the nominal amount in reals or the numbers of traded in a daily basis.

Anyway, I will stop here for any questions that you might have. I wanted to share -- I wanted you to know that beside Rodrigo and myself, we have Marcello Barnes. We have Hans. We have the team here to answer any questions that you have.

Operator, it's back to you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) If you have a question, please press star one on your touchtone phone. Our first question comes from Guilherme Assis with Raymond James.

Q - Guilherme Assis {BIO 16143141 <GO>}

Hi. Good afternoon, everyone. So I have actually two questions. My first question is regarding the revisions in CapEx that you had for the three projects that you're delivering at the end of the year.

I know that the project sounds casual, right, but I'd like to understand if these revisions have been more related to the change -- to any changes in the projects that you are building or if there's been any pressure on costs regarding work force or on the terms that you have with the contractors that help you to view these malls? So that's my first question.

The second question is regarding the lease spreads and the difference between the same store savings, same store rent. We still see that you have been able to readjust your rent ahead of the increase in the sales from your tenants, right? I'd like to understand what's your outlook for the upcoming quarter if you think that that will be sustainable in the second half of this year, maybe next year. I'd like to hear about your views on that as well.

So that -- those are my questions. Thank you.

A - Armando d'Almeida Neto

Well, I'm going to answer, but I don't forget Marcello Barnes is here. So he can -- he can jump in at any time to help me with the question. Guilherme, in fact was -- I like your question. It's a good way to it help also to explain.

There was both changing products and also increasing costs. You cannot forget that we have the whole company under construction. Many infrastructure projects. The demand from all the real estate sectors like the residential sector, there are industrial growing. So there are many areas of interest growing in demand for manpower especially in the city of Rio de Janeiro where we are and we have to two new Greenfields.

So the -- there's a higher cost moving faster than we see moving faster than the CPI, the consumer inflation. Yes, there is where also there were changing products. What we pursue? We pursue quality, not quantity. We always leave saying that.

And when we perceive an opportunity to change the project, to make it better, we will not hesitate to implement it and that was the case in some projects. Campo Grande was one of them in Brasilia as well. In Brasilia, for instance, what we have, we invest more money to have the lease -- better lease certification or we invest more money to have an extra -- an increase in the Parking spot for the building.

A - Unidentified Speaker

Lease is for our green building.

A - Armando d'Almeida Neto

Yes. So what we're trying to do at the end, improving the quality of our portfolio. That's what has a general concept make us move faster in terms of growth of very consistent growth that we see in our portfolio no matter if you're looking at sales or rental revenue two time. Not just a few quarters, but on the long series of quarters.

A - Unidentified Speaker

And we are also very committed to reduce common area expenses, common costs. So everything we can do now and invest now in pre-operation phase to reduce future common area costs we are doing so. We are investing in better air conditioner equipment, in better foreign, in better less LED lighting fixtures. We are investing in better glass -- more high performance glasses for -- to reduce installation.

So everything we can do right now -- we're investing more in security cameras to reduce future security costs. So everything can be right now to reduce future costs we are doing.

So sometimes we invest more in per-operation of phases keeping our models more updated and to reduce future price.

A - Armando d'Almeida Neto

And what's our view Guilherme is that it pays off to the time, you end up having better rent, this is a building in Brasilia. As you know, the markets in Brasilia normally lease corporate space when it's becoming ready or if it's ready.

So we haven't leased yet so those changes will certainly reflect NOI for us, that's our expectations especially on the long-run. We are income company, a property company. So we look for the income growth on the long-run.

In regards to your second question -- by the way, one important point that I mentioned in leased superiors as well on the -- on the initial speech was just to say sometimes you have to spend more money to be ready on time, not to delay, not to change. You have no controls on weather conditions. So you get too much rain, you have to delay a little bit. That happens, but we are very committed with our clients, with our products to deliver on time and that then costs a little bit -- an extra buck on that.

In terms of lease spreads is that something that we moving faster, we're moving ahead. Well, we normally think that the rental is a consequence basically of the sales performance. What you see is that this year part of this year and last year we've been growing faster than same store sales. To me it was a consequence of the success in years before, but also a consequence of a higher inflation that we have for the IGP-DI in Brazil.

So I -- how I look forward, I see a favor in our effect of the IGP-DI. As you know from 2010 to '11, it reduces by the end of the second half of '11, first half of this year. So I see the IGP-DI in fact being reduced, fading out a little bit.

But I am making forecasts on what is with real increase, what can we grow on top of inflation. The only thing that I can share with you. And we already did, is that we see very strong demand for space. We are believers that we see more and more the shopping centers representing higher market share in terms of the retail markets in Brazil and that is pressure on the space, demand for space on existing portfolio to have a quality portfolio, the demand for space -- for the readily available space will be there and very strong.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. This is very clear. Thank you.

A - Armando d'Almeida Neto

Thank you.

Operator

Excuse me. (Operator Instructions) Our next question comes from (inaudible) with Merrill Lynch.

Q - Unidentified Participant

Hello. Good afternoon, everyone. My question is regarding retail sales. How do you see the outlook for the second half of the year? And if you give -- could give us some color about how was the shopping mall sales during the month of July? That's pretty much it. Thank you, very much.

A - Armando d'Almeida Neto

Fannie. As you know, I have a pretty good outlook for (inaudible) in the second half, but looking forward. Okay? So we see income being generated, we see very tight unemployment level.

So we see, again, investments in so many areas, so many -- the same thing that caused pressure on the demand for manpower that caused pressure on the CapEx also is good on the other side on generating new consumers or consumers with thicker pockets to come to the shopping centers.

So I have positive outlook we don't see this year being way different than it was last year and it's so far it's moving, but pretty much on this range. About second half is, as you know, so important because of the seasonality, because of the Christmas season, because of the double salaries by year-end. So our outlook is positive once again.

In regards to July, July nothing special in July, not for good, not for bad, and I think it was pretty much an average month for us what we've seen so far. Nothing special to comment.

A - Unidentified Speaker

(inaudible).

Q - Unidentified Participant

Thank you, very much.

A - Armando d'Almeida Neto

Thank you, Fannie.

Operator

Excuse me. Our next question from Hall Jones with AEW Capital Management.

Q - Hall Jones {BIO 4023529 <GO>}

Good morning, or actually good afternoon here and there now. I was just curious if you're seeing or where you were seeing particular strength either by retailer category or geographically with across your portfolio.

A - Armando d'Almeida Neto

Okay. Just give me one second (inaudible). Okay. All right. In our earnings release, page 19, we have the breakdown for same store and the different segments. So what we're seeing, we're seeing home appliance, home and household appliance being very strong with 12.1%. We also see on food court and restaurants a pretty good demand increasing 9.5% as a trend that we see growing entertainment as a whole.

But what else would I highlight? Services is also important especially on the apparel segment with growing a 9.7% in this -- in this quarter. In service you can think about (inaudible), but also mobile phones (inaudible) and I think those are good examples.

A - Unidentified Speaker

(inaudible).

A - Armando d'Almeida Neto

Geographically speaking -- hard to say. In the south, we were pretty good both (inaudible) BarraShopping Sul was pretty strong, but also we've seen on the -- on the southeast BH Shopping growing strongly, Vila Olimpia, Santa Ursula, both in Sao Paulo state also growing strongly.

So I would say it was even participation even though the south came faster through my mind when you asked.

Q - Hall Jones {BIO 4023529 <GO>}

Okay. Thank you.

A - Armando d'Almeida Neto

Thank you.

Operator

Excuse me. (Operator Instructions) As there are no further questions, I'll turn over to Mr. Armando d'Almeida Neto for his closing statements. Please, Mr. Armando, go ahead.

A - Armando d'Almeida Neto

I want to thank you all for the time, for the questions, for the interest in Multiplan. I also want to thank you for the five years as a partner to the Company. I think we learned a lot. I think we improved our company with your questions, with these open discussions that we have frequently (inaudible).

So I want to wish you a very good day and thanks once again for being with us. Thank you.

Operator

Thank you. This concludes today's Multiplan Second Quarter 2012 Earnings Conference Call. Thank you for your participation and have a good afternoon.