

Q4 2016 Earnings Call

Company Participants

- Frederico da Cunha Villa, CFO & Director-Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BR MALLS' Conference Call. Today, with us, we have Mr. Frederico Villa and Derek Tang.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After that, there will be a question-and-answer session for analysts and shareholders, followed immediately by another session for journalists. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of BR MALLS' management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of BR MALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Frederico Villa, who will begin his presentation. Mr. Frederico Villa, you may begin your conference.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Good morning. Thank you for participating in our fourth quarter of 2016 conference call. As we have done in previous calls, we will go over a brief summary of quarter results, and then we'll be available to answer any questions you have.

In the fourth quarter of 2016, net revenues totaled BRL 388.6 million, a 3.2% decline over Q4 of 2015 on a same mall basis. In 2016, net revenues amounted to BRL 1.4 billion, 2.8% lower than 2015, also on same mall basis too.

Net operating income, our NOI, totaled BRL 360.8 million in Q4 2016, with a NOI margin of 90.8%. In 2016, NOI came to BRL 1.2 billion, a decrease of 4.4% compared to previous

year on a same mall basis. We ended the year with a NOI margin of 90.2%, our eighth consecutive year with NOI margin above 90%.

On Q4 2016, G&A expenses increased by 3.4%. In 2016, we demonstrated our ability to adapt in face of a challenging scenario by reducing our general and administrative expenses by 23.5% or BRL 31.4 million. Excluding effects of contingencies, G&A expenses reduced by 4.6% on Q4 2016, and by 12.8% in 2016.

Adjusted EBITDA stood at BRL 296.5 million in Q4 2016, with a margin of 76.3%, the best margin of the year. Excluding the effects of divested assets in 2015, year-end 2016 adjusted EBITDA amounted to BRL 1 billion, 9% lower than in 2015. We ended the year with adjusted EBITDA margin of 74.2%.

In line with our deleveraging strategy, there was a decrease in net debt compared to the previous quarter. We ended the year with the total net debt of BRL 4.4 billion, 9.8% lower than 2015. During the year, we amortized a total of BRL 919.4 million and issued a total of BRL 425 million, therefore, a net amortization of BRL 494.4 million.

Our financial result has sequentially improved since 2015. In Q4 2016, we ended with a net financial cash expenses of BRL 113.3 million, which represents a drop of 14.5% when compared to the same period last year.

Adjusted FFO came to BRL 117.6 million in Q4 2016, a sequential improvement with a year high margin of 30.3%. In 2016, adjusted FFO totaled BRL 300 million.

Despite facing the worst retail crisis in Brazil history, our total sales declined by 1.7% and 0.7% on Q4 and 2016, respectively. The performance demonstrates the sector's and BR MALLS' resilience.

Same-store sales was in line with the previous quarter, with a negative variation of 0.6%. In 2016, our same-store sales decreased by 0.5%. Our same-store rent had a significantly improvement when compared to the previous quarter posting a growth of 5.3% in the quarter, the best performance in the last nine months. In 2016, our assets' same-store rent totaled 4.4%.

Our occupancy rate increased by 70 bps over the last quarter figure of 95.5%, reaching an average of 96.2% on Q4 2016. The improvement reflects our leasing efforts, our portfolio attractiveness and the seasonality effect that benefits the fourth quarter. In Q4 2016, we focused on updating and strengthening our tenant mix with a record high of 425 new contracts signed in the current malls.

On February 2017, in line with our deleveraging strategy, the company amortized the first series in the second debentures issuance, totaling BRL 88.9 million.

And also in line with our portfolio recycling strategy, in March 2017, we announced the sale of our 33% interest in Itaú Power Shopping for BRL 107 million.

Now, we are available to answer any questions you have.

Q&A

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. This concludes the question-and-answer session.

At this time, I would like to turn the floor back to Mr. Frederico Villa for any closing remarks.

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you for participating on our fourth quarter of 2016 conference call. If you have further questions, please contact us here at BR Malls. Have a nice day. Bye.

Operator

Thank you. This does conclude today's presentation. You may disconnect your lines at this time, and have a day.

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