Q2 2015 Earnings Call

Company Participants

- Armando d'Almeida Neto, Vice Chief Executive Officer and Investor Relations Officer
- Franco Carrion, Investor Relations Manager

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Other Participants

- Unidentified Participant

Presentation

Operator

Good morning. Welcome everyone to Multiplan's Second Quarter '15 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Hans Melchers, IR and Planning Manager; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan's website at www.multiplan.com.br/ir. We would like to inform you that this event is 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 that forward-looking statements 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. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause the results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Franco who will read the message in the name of Mr. Peres. Mr. Franco you may begin the conference.

Franco Carrion {BIO 16449361 <GO>}

Good morning, ladies and gentlemen. Thank you for your interest in our conference call. As Brazil experience its economic challenges, I'm reminded of not for distant past four [ph] years Multiplan the country has gone through several crisis and yet we haven't stop growing.

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Our strategy in time like these has always been to move forward using creativity and efficiency. With ignoring the reality of the market. Multiplan will continue to be a pioneer in the sector and we believe that the company will continue to grow benefiting from a strong cash generation.

In this sense, we are carrying out several projects. Among them are ParkShoppingCanos, ParkShoppingJacarepagua to be launched in the second half of this year. The medical center expansion in BarraShopping and two expansions in purchase of Patio Savassi. All this projects represent investment of approximately R$1 billion.

We all aware that the only thing recordable in a company is time wasted. Our policy is to continue growing on solid foundation using the best talents of our employees. On the other hand not less significant is the effect that in the first half of July reporting sales in our shopping centers achieved a growth of 10% which makes us believe that we've change rate adjustment was essential for internal consumption growth.

As a result we have more than an increased people flow in our malls. The shopping centers apart of the daily life of Brazilian. They are in effect and extension of our own homes. Now more than ever with the worsening of urban mobility people have the growing need of one stock shops. We follow our strategy started more than 20 years ago of creating mixed yield complexes. Because we know that the urban polarization with their goals from the Brazilian coast line the surrounding of our major shopping centers. Indeed land plot located close to shopping centers -- short value appreciation. And in this sense, I would like to give you two simple examples. In September 1979, Multiplan acquired 103,000 square meters sugarcane farm to build (inaudible) on shopping in the city of (inaudible).. Price at size US dollars per square meter. 32 years later in April 2011 we bought another ramp attached to the mall to build an expansion. We had 11,200 square meters of area and cost is R$33 million which on that time we're equivalent to $1,850 per square meter.

Comparing both acquisitions, we find that in 32 years the value of the land increased by 307 times. Around the mall now three times larger flourished a new modern city which surrounded the shopping center with unique building and houses.

Another example, we'll be at BH shopping in September '79 with a $12 million investment. Today the same asset is valid at $600 million, which is 50 times more. Again a new city was born surrounding them all becoming one of the most exclusive districts of (inaudible).

Multiplan at the end of June was valid with a market cap of around R$9 billion. The company's property fair value however, what R$16 billion excluding its land bank with 821,000 square meters which is booked at a cost of about R$418 million. That translates into R$500 per square meters or less than 25% of its market price.

This land bank has a building potential of 1 million square meters for next year's project and they generate private area for sale of around R$8 billion at today's market price. The company occasionally develops real state for sale project in favorable market conditions

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leading to 30% margins over the selling price. Our event through of finished unit is less than 2% of your property sold.

All this shows the growth potential that the company has for years to come without making new real estate acquisition. Nevertheless, this quarter we invested R$124 million in acquisition of new areas and air rights preparing us to grow while still working on the ongoing project. The company's current financial situation is extremely comfortable since the total amount of net debt corresponds to 21.6% of the market value on June 30, or 11.8% of the property sale value even not considering the land bank. We are trying to show the Company's financial strength and its growth potential, even during negative financial cycles. Any it can be seen this quarter as Multiplan results remain positive. Net income grew 3.2%, rental revenue increased by 8% and sales in mall has extended by 4.8%. The electronics sector have a significant reduction in the country. And it is what is excluded from the company's sales metric remaining stores, which account for 90% of the total sales would post a 7% increase. I also want to highlight that during the administration of President Collor in 1992 when people have their bank account locked sales fell as much 30%.

However, after eight months they rebounded strongly bring significant gains through retailers. Coming back to the quarter, the company has controlled expenses and it's becoming more efficient. We're making efforts to keep occupancy cost stable with that has adjust economy mean expensive, through the semester inflation. This highlights Multiplan efficiency in its properties management.

The crisis scenario reminds me of a movie, I have seen many times. The difference is that now we have in the country a number of international retailers demanding new spaces and a much more professional local retail metric. Moreover, the Brazilian car fleet that was 11.5 million in '92 had to reached to date 44.5 million vehicles, leading to a strong people flow in our malls.

Our occupancy rate remains at 98.4%, which also shows the strength of our property which has triggered the development of small expansions in our malls in order to meet tenants need. We did gave MorumbiShopping to allocate Apple and we are also carrying out works in Patio Savassi and ParkShoppingJacarepagua to include Forever 21.

Altogether we invested in the last quarter R$37 million in expansion. Multiplan currently have 256,000 square meters of GLA in a near mall and expansion project off which 56,000 are already under construction.

This quarter we officially launched ParkshoppingCanos an amazing project we are building the metropolitan area of postal hedging Rio Grande do Sul with 48,000 square meters of GLA and investment of R$359 million because of the quality of the project and the credibility of the company its building has reached 55% of the area having already signed with Anchor Stores such as Renner, Lojas Americanas,Lojas Riachuelo, (inaudible) Tok & Stok, among others. It's opening is schedule for the second quarter of 2017. We're also working intensively on the development of ParkShopping Jacarepagua it completed the acquisition of the land and we are waiting for the end of the land clearance in order to

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start the earthworks. Now we'll have 42,000 square meters of GLA and we plan to launch it in the second half of this year.

Soon we'll be opening the expansion of our shopping medical center with over 3,500 square meters including a new diagnosis center and 13 clinics. Its leasing has already reached 83.5%. With this result we have started negotiations to deal 6,800 square meters Medical Center in RibeiraoShopping, which will include a day hospital and diagnosis center and more in 20 clinics.

This is move to planned strategy develop next year's project in February month, the business centers, hotels and residential buildings. All adding value to our asset producing a strong synergistic effect and increasing people flow in our malls.

While philosophy is to offer more and more convenience and joy to our consumers. We recently delivered project well in the corporate with 74,000 square meters of GLA which are 90% occupancy. It should generate R$64 million to the US results. Next year when contracts come into operation we expect to generate our revenue of around R$84 million. So conclude and to offer a contract to the current market new store regarding sales. I'd like to highlight -- to highlight two quick facts.

First, Shopping Santa Ursula [ph] grew sales in the quarter by 22%, and then Parque Shopping Maceio, which recently opened were by 40% in the same period. This positive results so that despite the negative scenario we are on track and growing. We're continue expanding this in our own resources while maintaining the company's strategy and geography and with no accepted that. I would like to finish up by thanking the shareholder and investors for your interest in our company and thank also our officers, employees and stakeholder's dedication.

And finally, I also want to thank the analyst and the journalist that follow Multiplan during this journey. Now I'll pass the floor to Armando for more details of our results. Thank you.

Armando d'Almeida Neto

Thank you, Franco. Thank you, Mr. Peres. And good morning everyone. In this conference I will do differently than usual. I will make general comments on the highlights of the quarter without following the presentation with comment for each page.

So finally, this quarter was not an easy one at all. But it is in one hand the headline news and the economic environment among or other factors. For other effect consumer confidence and reflected the sales. On the other hand, we landed to overcome the challenges and presented goal and efficiency both operation -- operational and financial. Our first look into sales growth may take -- makes and appear small below average whether we would like to show this number not as a quarter left record [ph]. But as a movie, normal sales rose 4.8% on top of an increase of 15.2% over the same quarter last year.

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In the last five second quarters, sales growth was significant 84% a compounded average growth rate of 13% per annum. The same analysis can be use it for sales on the same basis. The same-store sales grew 1.2% while sales in the same area increased by 2.8% both over the very strong 12% increase from the same quarter last year.

It is growing on a very high base for both sales and also rent. I mean, in Reals in local currency. We do not focus only on the quarterly percentage change, but also the final and absolute number that if represents.

In short even with all the difficulties that retailers have been going through and the recently reported closing of many stores. Our malls had the highest grown in our portfolio history. We continue -- our malls at the higher sales volume in the portfolio history. We continue seeking the best durations for each of our properties. It is the day-to-day work. Every day of intensive more management. That is also reflected in the high occupancy rate at 98.4%.

Almost the same one presented on the second quarter 2014 in the first quarter of 2015. That's by their way is the highest second quarter occupancy rate in the past five years. Also important to know despite the 8% growth of the rental revenue, we manage to get the occupancy cost slightly lower by 10 days this slide to 12.6%.

By thriving to reduce the common expenses. Tends to de-risk it was the lower second quarter occupancy cost in the past five years. Gross revenue did not grow due to the planet and previously former reduction in real estate for sale revenue, which was 94.2% lower due to the completion of the mixed and use product by BarraShoppingSul. Revenue relating to the proper ramp up, i.e. excluding the real estate for sale revenues grew by 5.8%. Revenues from rental and parking were the ones with the highest contribution.

Delinquency was not just lowest in five years second quarter, but it was reducing from 2.1% to 1.5% while rent was getting half to 2.3%. The normal ramp increases by 8%, while same-stores rent increases by 7% that is a real increase of 2.4% on the top of the equation effect.

The modern incorporate powers have 90% occupancy rate and this quarter contributed with R$16 million, 48% higher than last year. Overall operating expenses fell by 15.2% analyzing the G&A expenses. Highlighting the G&A expenses that increases along these 4%, well below inflation and the shopping centers expense which fell 11.2%. The cost of new products for lease increases 106.7 -- 116.7% due primarily to the launch of the new product that is ParkShoppingCanos. Following the result in improvement in operation, operating in financial margin some of which were new records to the company. The NOI were plus Key Money increased by 9.2% with the margin that reached the mark of 90%, 90.1% successful.

A 147 basis points higher than last year. The last 12 months NOI per share, which is R$4.95 with a five-year CAGR of 15.2%. EBITDA remains virtually unchanged at R$186 million, 0.6 lower, 0.6% lower when compared to last year and was due to the real state achieved that we mentioned a few minutes ago.

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On the other hand, the margin in the second quarter, which is 72% the highest EBITDA margin since the company's IPO. We mutilated the shopping centre in EBITDA concept for properties EBITDAR concept. To be flat the contribution of the properties for rental being shopping center malls, shopping centers and office towers. That is we excluded the real estate for sale attributing.

Property EBITDA margin was of 76.1% in the second quarter. With regard to the indefinite leverage at the end of June was 2.44 times coming from 2.23 times in March this year.

Mainly due to the investment and payment of interest on net equity and business related to the year of 2014. As recently mentioned in mix of prepared speech the net debt represents only 11.8% of the fair value of our products. The average cost of gross debt was at 12.29% per annum. 146 basis points lower than the base rent, the Selic rate that is (inaudible) on June 30 at 13.75, it is now at 14.25 per annum.

This quarter, we've signed a new 15 year financing of R$280 million at a rate of CR plus nine and three quarters. Just want to develop as a Canoas project. In regards with the new projects and an investment in general towards CapEx was of R$143.3 million in the second quarter and we are carrying out several expansion forthcoming 102,000 square meters in our malls out of a total of 1,656,000 square meters of potential expansion. Just Brownfield investments that we have under the results.

And in spite of the 256,000 square meters of potential new shop exchanges area both Greenfield and Brownfield. The ParkShopping can always that is under construction at 65% of its Gross Leasable Area already leases. 18 months before the lease is schedule accepted for the second quarter 2017.

Finally, as a result of the increase in the liquidity MULT3 decline product which IBrX-50 index covering the period of May 2015. You have more details on what was there and comments on the earnings release in our financial statement. So, I will finish here my comments. And I want to thank everyone for your support interest and attention and let's start with Q&A session.

Operator, back to you.

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Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions). Our first question comes from (inaudible), Morgan Stanley.

Q - Unidentified Participant

Good morning, gentlemen. I have a question on occupancy specifically the other as percentage of sales. What sort of items will reduced or tenant in order to lower that percentage. And is there more than you think that can be reduced?

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A - Armando d'Almeida Neto

Thank you, Joel. This is Armando speaking. As we started on the second half last year, working on a plan, we had allowed us as a result you reduce the comment extracted for our tenant. But did not -- need to compromise the quality and the shopping experience that we want tenants to have in our property so, it's fairly what we get parameters. And what basically -- it was broadly and differently for each of the property lease executed in general terms, I think that personnel was one of the items. I'll start with -- from each of the malls.

The second one will be energy. We've been implemented new agreements to buy energy on the free market to withstand as a supply to the demand of the shopping centers that which came with the pricing wise discount to what we see on this currently -- on the spot prices synergies. We also renegotiate some agreements of our (inaudible) suppliers on the mall level and I believe that leaves for the coming quarters we should create savings percentage wise compared to what we saw last year.

Last but not least the sales growth effect also was important to reduce cost as a percentage of sales.

Q - Unidentified Participant

So is the program over?

A - Armando d'Almeida Neto

It's never over. The question we -- can we further reduce common expenses. Yes we can. This was one of the questions of the formal growth of the Portuguese -- the Portuguese conference call. With certainty -- but again we -- this is a long-term mindset in our company. Why so this is a long term business. We'll think what can be affected on the long term that we are going to watch and as I mentioned on the first part of the question. We've don't want shopping centers gains to affected by reducing all the expenses. We're clearful about what can still be done not perhaps not to get gross of experience that we will think our consumers have and want to provide -- the standards we want to provide in our shopping centers.

That would be our short terms savings and with the long term loss. If you just start negotiate expenses without having in mind what tenants extract from there in the short term. The answer is yes. If we need to, yes.

Q - Unidentified Participant

Okay. And so we should expect with 30 basis points reduction or occupancy costs with that portion going forward?

A - Armando d'Almeida Neto

Not going in that. I'm sorry, The previous was -- here to end, we expected just timing wise because the most of the reductions were implemented as saw early this year 2015 to say comparison rates. I expect you see couple more quarters. That's what I said.

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Q - Unidentified Participant

Okay. And my last question is on do you have or have you provided an expectation for same-store sales for the second half of the year?

A - Armando d'Almeida Neto

We haven't presented any guidance, any exactly figured. I'll mention in the first quarter conference call and I -- with their fair results also mentioned in his speech in this quarter. Our expectation is that the first half would be tougher than the second one naturally on the last quarter specifically on the second half it referred. It is the season that we see sales improving because of Christmas, because of Black Friday or many others.

We -- economy wise in the last quarter, the expectations that we will see improvement going throughout the year. Of course, we have absolutely no control and depend on the headlines of people who will feel.

But we do think that the fourth quarter again has and showed our improvement compared to what we saw in the first two quarter this year. Don't get mistaken by the percentage increase only as I mentioned during my comments, my remarks looking at the total absolute number in Real. The growth presented last year 12% was impressive for last year because of the branch of the new operations that starting reasonably in almost last year that created a significant improvement.

So, we are growing in a much adverse economic scenario and operating at different headline news that we have last year and we are growing on top of that. That make us through out and even this way, even with what is strong base. We think we can grow further yes or also mentioned during this preparing speech.

The first part of July the mini store significant improvement or necessarily expect that would be to last for the whole month of course not, but it was a significant improvement. We also perceive our increasing traffic in the shopping centers and this month of July. Okay, if you are going to say, yes it is. Is that easy to navigate and this sees certainly not, with just few very well prepared equivalent to move forward. And that's what we are doing.

Q - Unidentified Participant

Thank you very much.

A - Armando d'Almeida Neto

Thank you.

Operator

(Operator Instructions). I'll turn the conference over to Mr. Armando d' Almeida Neto for final consideration. Mr. Armando, you may give your final considerations now.

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A - Armando d'Almeida Neto

Thank you all very much. I'd like just to share a few more questions. I appreciate your questions coming from thereof (inaudible) and if can share some of the inflation, some frequently on the -- throughout this call, part of the call.

There were question about occupancy cost, sorry, occupancy rate as well. It was a very high figures, so one analyst asked us what is our expectations and we mentioned that that we are positive on the outlook in terms of occupancy of course we are not forgetting about the commodity environment that we will be going through, but we so far notice that demand, there good names and with a, such a high occupancy rate we have something we have space to bring leaders in the sectors, very good names, it's very difficult we are varying four concern we have and that's what we've been doing.

We have chanceless to replace (inaudible) store in our mall or two mega store, took really more productivity for business outlook [ph] as an example in the center that I mentioned about so it is time for opportunity for us. Don't just look at crises as problems, but also there is a different version of opportunity and that's we are doing. By the way, that's what we will be doing for four years, I think during those four years were all bullish years. So, tough years ahead that we had in the past.

And what we did was the great opportunity was there and continue growing, respecting the demand of space, respecting the commodity environment but growing and that's what we've been doing. One other question we had was in regards to future expansion and specifically won a medical center in city of Ribeirao Preto and so it's about another 6,500 square meter give or take that we have opportunity to develop in the mall that is -- that we have a three expansion in the past two years. And just example like this, here the one that we are doing by shopping another medical, special medical center especially could be cheaper and our mall Patio Savassi [ph] is launching. So, there are many other that we are working on just because we have no space and turnovers in Jacarepagua are too broader that we are very bullish about and we think we will take the opportunity of bringing new products even in our challenging environment. That shows the confidence that we in the future.

We want to thank you all for participating in this conference call. Thank you all for your trust and attention to our company, and I wish you all very good weekend. Thank you very much.

Operator

Thank you. This concludes today's Multiplan second quarter 2015 earnings conference call. You may disconnect your lines at this time.

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