Q1 2022 Earnings Call

Company Participants

- Eduardo Langoni, Chief Financial and Investor Relations Officer
- Ruy Kameyama, Chief Executive Officer

Other Participants

- Fanny Oreng, Analyst
- Marcelo Motta, Analyst
- Pedro Hajnal, Analyst
- Renato Cabral, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for holding. Welcome to the BR Malls Audio Conference to discuss the results for the First Quarter of 2022. (Operator Instructions)

Before proceeding, let us mention that any statements made during this call relating to the business perspectives of the company, its forecasts, operating and financial goals are based on the beliefs and assumptions of brMalls management and on information currently available to the company. Forward-looking statements are not guarantees of performance as they involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general conditions, industry-related conditions and other operating factors may also affect the company's future earnings and lead to materially different results from those expressed in such forward-looking statements.

Now I will turn the floor over to Mr. Eduardo Langoni. Mr. Langoni, you may begin.

Eduardo Langoni {BIO 22105877 <GO>}

Good afternoon, everyone, and thank you for taking part in our teleconference for the earnings of the first quarter of 2022. I have Ruy and Juliana [ph] with me. I will give the presentation and afterwards we will be available for the Q&A session.

Let's begin the presentation with Slide number 2. So the year of 2022 continues to show recovery for brMalls not only in terms of results but also major advances in the company's strategic agenda. Even with the impacts of the Omicron variant in January 1Q '22 was marked by strong operating indicators in addition to results levels that expressively are higher over 1Q '19, and that performance was mainly driven by the total sales indicator that ended the quarter with 5% growth compared to the same period in 2019. In March, the growth in sales exceeded 10%, in April, the increase in total sales achieved 21.8% growth also compared to the same period in 2019.

Same-store rent, SSR, achieved 37.5% growth compared to the same period in 2019 indicating taking away the discounts granted in previous periods. I'd like to highlight the Midwest region that achieved SSR of 56.3% compared to the same quarter of 2019. The net bad debt in the quarter also shows a positive response to the commercial strategy adopted achieving the result of 6.2% in 1Q '22. If we exclude the month of January, the average result was 3% and that is comparable to the period before the pandemic. The occupancy rate which naturally shows a drop in the first quarter, given the seasonality of the business achieved its best level for that quarter in the past eight years ending at 97.6%.

On Slide number 3, we have the growth of minimum rent ex-linearization and net of discounts with an expressive number of 29.9% in the quarter, also driving NOI ex-nonlinearization, which achieved a growth of 122.7% compared to the first quarter of '19. In EBITDA, we achieved BRL254.5 million, a growth of 17.3% compared to the same period in 2019 with the margin of 74.5%. FFO in the period achieved BRL103.6 million affected by the increase in financial expenses given the higher interest rates, but even so it presented a growth of 21.5% when compared to 1Q '21.

On Slide number 4, we have the details of the financial leverage index for the company. In the first quarter this year, we announced the sale of 30% of our interest in Center Shopping Uberlandia for the amount of BRL307 million, representing a cap rate of 6.7%. The proceeds from this sale were directed towards decreasing the company's financial leverage. In April 2022, we concluded the optional early redemption of the nineth emission in the total amount of BRL404 million. Additionally, the company informs its intention to carry out by the end of 2022, the optional early redemption of the eight perpetual debentures that will contribute to deleverage the company and the cost of funding the company.

On Slide number 5, we talk about the evolution of our business model. Our loyalty program, which was launched in August 2020 is gaining more attraction every quarter. In 1Q '22, it achieved an important milestone of 1 billion GMV and that accounts for the total amount of sales of program members. And in this quarter, it proved its relevance because without promotional campaigns in the shopping malls, the share in total shares maintained itself above 15%, achieving 17% in March and exceeding 20% in April.

About business media, we're the only company in the industry that's scaling up this business area that in growing and gaining more relevance every quarter. In 1Q '22, media revenues achieved 5.1 of gross revenues, a growth of 2.3 percentage points compared to the first quarter of 2019.

On slide number 6, we have an example of our initiatives and innovation and strengthening our assets. We join in with final lab with one of the network gamers that are most influential in Brazil to create an initiative. This quarter, the Xdome lab gamer was born, it's a gamer arena of over 300 square meters located in the Metro Santa Cruz shopping mall in the city of Sao Paulo. It's born as a meeting point for the gamer community with the one-stop-shop for the market not only for consumers but also for brands. So these products are becoming even more consolidated as important anchors to attract and create loyalty to the flow in our shopping malls. It's worth highlighting that the gamer industry is one of the largest in the world exceeding music and movies together.

About differentiating our assets, on Slide number 7, we have the retrofit and redevelopment case of this Shopping Tambore shopping mall. During the pandemic, we begin the retrofit by changing the flooring, landscaping and furniture in addition to renovating the pond. With over 6,000 square meters, the former CNC store will bring in the best that we can offer in National Gastronomy and Decathlon three megastores and 12 new satellites that will benefit the customers even more. The Taste Lab, a collective area for Gastronomy will have 16 operations that bring together noteworthy chefs in many different segments of food in addition to music, arts and culture.

That is the end of our presentation. Myself, Ruy and Juliana are here to answer your questions and any doubts you may have.

Questions And Answers

A - Ruy Kameyama {BIO 16672412 <GO>}

(Operator Instructions). Our first question is from Renato Cabral from Citibank.

Q - Renato Cabral {BIO 19980986 <GO>}

Hi everyone, good afternoon. Thank you for taking my question. My question is about the innovation strategy. If you have the joint venture with Aliansce. So if the deal is concluded, especially in media, as you have already shown your intention to have a relevant percentage of your revenues in media and Aliansce has a bit of a different strategy in that sense. Do you think you would achieve the 20% faster if you do or not? So I'd like to hear your opinion on that.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi Renato, good afternoon. This is Ruy speaking. Thank you for your question. About the innovation strategy in case the deal with Aliansce is realized. Well, we've had some conversations with them and we believe that the direction is the same. Obviously, it goes through strengthening the shopping malls core business but also developing new solutions. So in media, we have in fact adopted a different strategy compared to other shopping malls, companies, and in general, they outsource the media to a different partner, but in our case, we've adopted the strategy over six years ago to bring that in-house even more because we believe it's part of the core business and it's an avenue for growth.

So at the end of the day that does converge with the loyalty strategy. So we believe that as we create more loyalty and have more granular data from our consumers that will be very useful for merchants to increase in their sales as we have demonstrated some cases in the last releases. So that's very important in the marketing and performance strategy for our merchants and then obviously that would be monetized via media. So we're very confident about that strategy that we have been following in these past years, media and loyalty is one of brMalls' big focus and if we advance in the deal with Aliansce that should also be pursued by them by the new company it would make a lot of sense.

And the question about the 20% if you get closer or farther away from that. Well, I can't say in percentage wise, but we know that the scale would help obviously more scale for media and loyalty without a doubt that would give us more potential and increased potential in the long-term.

Q - Renato Cabral {BIO 19980986 <GO>}

Perfect Ruy. Thank you. Very clear. Good afternoon to all of you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Renato.

Operator

Our next question is from Pedro Hajnal from Credit Suisse.

Q - Pedro Hajnal {BIO 21159036 <GO>}

Hi everyone, good afternoon. Thank you for the presentation and taking my question. I have two. First of all, I'd like to know if you can give us some more flavor in the difference between same store sales compared to 2019 compared to the volume sales volume growth. So I'd like to know about the financial health of your merchants? The second question is about turnover, it's at a pretty high level, so I'd like to understand the spread for these new rentals? Those are my questions. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi Pedro. Good afternoon. Thank you for the questions. About your first, the difference between same-store sales and total sales, it's important to mention that we're comparing same-store sales to 2019 because it'd be a bit confusing to compare that to 2021 and 2020 because of COVID. So we're going back three years. In our business three years, you can have a natural turnover of stores and that increased during COVID and some of the quarters. So it's important to look at same store sales, but it doesn't really portray what's actually going on in each one of the developments because after all we did lose an important base, a comparable base to what we had three years ago and total sales reflects that even better because you're comparing not just the installed base that we have three years ago, but also the stores that came in and were changed or replaced during that. When we talk about a shorter period without an interval like COVID in the middle, same-store sales could be a more loyal indicator. But when we go back three years and a pandemic in the middle, we look at total sales as a better parameter of what's going on. And it also reflects the changes in the mix and new rentals.

About your second point. If you look at our track record, 5% which is pretty much our store turnover in that last quarter, 5% is not really high for us. We believe it's important to maintain certain store turnover because I think that brings something new into the mix, something new for consumers and also given the dynamics and bad debt, it's natural to have some turnover. So when you look at our track record, we've had moments where we're closer to 8% and 7% and now we're at 5% and we don't believe that's high. We actually believe that's adequate for the moment that we're experiencing right now, and that also reflects the changes that I mentioned not only in the mix but also bad debt and any potential change of merchants.

The spread has been increasing quarter-after-quarter, we have an occupancy rate that's very good close to 98%, that's the highest in the industry and that also gives us the confidence to adjust prices. We have few empty stores to offer, so sales were -- in April were strong and in May even better, so the merchants are seeing that happen and they look for more stores. So it's about supply and demand and we have a very low supply in the main shopping malls Tambore over 98% occupancy rate. So we could hardly have any vacancies and the demand is coming back. So we have been adjusting our pricing and improving the lease spreads, they're already positive and we hope to continue to increase that. We said that during the pandemic, we were being more defensive during that period. But now that we believe that sales are recovered, retail is strong, consumption and people are coming back to the malls, it's natural that merchants would look for the vacancies more and the price will be adjusted upwards.

Q - Pedro Hajnal {BIO 21159036 <GO>}

Perfect Ruy. Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Pedro.

Operator

Our next question is from Fanny Oreng from Santander.

Q - Fanny Oreng {BIO 21102709 <GO>}

Good afternoon, everyone. Thank you for taking my question. I have two questions, they're pretty much related. First of all, about the announcement to approve the merger during the assembly meeting. So how about stock options, employee retention, what would that come into the company's bottom line if the association is approved? And that's my first question.

The second one is how are you managing the company mid-level with the employees, so that you don't have a very high turnover that could affect the company while you don't have a merger because any merger brings on anxiety among the employees or associates. So I'd like to know how you're handling that mid-level employees? Those are my questions. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi Fanny, good afternoon. Thank you for your questions. The first one about costs. What costs will be realized? Well, we put that in the protocol in a very clear way, they will be realized at the end of the closing. We believe that would be the right moment. We've had some conversations with external auditors to understand to see if we have the same understanding. So it will be after the final approval of the Brazilian Antitrust Agency, CADE.

About your second question, that's a very important one. How do we manage turnover of employees, especially during times of this type of the transaction, you specifically mentioned your concern with mid-level management? So it's a very important question and it makes sense, because when we talk about this type of operation. For that to be successful, we have to retain, we have to engage and we have to make sure that our talent remains in the new company. So in the upcoming months, that is very important, we've been giving clarity, we've been explaining our team and also the merits of the transaction. And at the same time and we know that brMalls is recognized in terms of the quality of its employees. So at this time, it's very important for us to retain them. And that's why in this transaction, we have a budget for retention of up to BRL15 million, and that's not only for statutory officers or directors, it's for the entire company. Actually, most of it is not for them. So that we can guarantee that the entire team understands the merit. And so that we can have the adequate retention until this deal is concluded.

So yes, we are concerned about that, we have been handling that that's one of the main aspects, not only for brMalls moving forward, but also for the success of the new company. That's why we're being very diligent in this matter.

Q - Fanny Oreng {BIO 21102709 <GO>}

Great Ruy, thank you very much. A follow-up question, if you could comment, you mentioned that May is even stronger than April, how much do you see sales growing in May could you mentioned that?

A - Ruy Kameyama {BIO 16672412 <GO>}

Fanny, I can't really mention the figures yet, but it's strong, May is strong. It's going to be better than April. We only have some first figures, we can't really confirm anything right now. But so far, it's going to be better than April. And every month, we've seen very positive figures. We've seen that sales in April were better than February and March. And at the same time, another data point is net bad debt, we had 6% in the quarter. We informed that January was worse because of Omicron. But at the same time, February and March are close to 3% and April net delinquency was practically zero, so that's yet another sign of how things are evolving positively and that gives us -- makes us feel very confident in organic growth growing rents and same-store rental very good and the occupancy rate is very adequate given that the sales growth is happening and net delinquency was zero in April. And May is looking very positive, so we're very confident for the upcoming months.

Q - Fanny Oreng {BIO 21102709 <GO>}

Amazing, excellent Ruy. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Fanny.

Operator

Our next question is from Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Hi, good afternoon. I also have two questions. The first one, could you comment on the arbitration that you won that you have BRL12 million to your bottom line. Could you have any more gains in that in upcoming quarters? And the second question is, if you can talk about the liability management about the debentures, would you consider more investment or exchanging the debt. So I'd like to understand a little more about any triggers that you might have for the early redemption?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi Motta, good afternoon. Thank you for your questions. About the first one, was a one-off that we had of a labor, excuse me, a claim a legal claim in the Tijuca shopping mall that was favorable for us, so that impacted this quarter and we do not expect that to happen again in others, that was specific for the Tijuca shopping mall in this quarter, a legal claim.

In liability management, we're planning on continuing that, that's important. We saw the operational results going well, but the financial expenses in this environment of high interest rates and should remain high affects our bottom line. So it is a priority for us to work on liability management and we have the tools for that that do not depend on selling any assets moving forward, it's just through cash generation. We have a plan to continue to deleverage, as Langoni mentioned, there is the perpetual debenture which is our most expensive debt. We prepaid almost half of it so far and our intention is to prepay the other half by the end of the year. So it's a more expensive debt and there is no penalty in prepayment. So that's up to us to continue to do that. And as I mentioned, that doesn't change our portfolio, we don't depend on that and we can also maintain our investment plan, be it in assets or in innovation and digital.

Well, do we have any other questions? No. Okay, then I'd like to thank on behalf of the company, I'm here with Langoni, Juliana, the entire IR team. We are available for any further questions. Thank you very much and have a great afternoon.

Operator

The brMalls' conference call is now over. Thank you for your participation, and we wish you a great afternoon.