

## Q2 2016 Earnings Call

### Company Participants

- Derek Schwietzer Tang
- Frederico da Cunha Villa

### Other Participants

- Ivan Enriquez

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BRMALLS' Conference Call. Today with us, we have Mr. Carlos Medeiros, 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.

Today, we have a simultaneous webcast that may be accessed through the website, [www.brmalls.com.br/ri](http://www.brmalls.com.br/ri). The slide presentation may be downloaded from that website as well. There will be a replay facility for this call on the website for a week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of BRMALLS' 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 BRMALLS 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 the presentation. Mr. Frederico Villa, you may begin your conference.

### Frederico da Cunha Villa {BIO 18677215 <GO>}

Good morning. Thank you for participating in our second quarter of 2006 (sic) [2016] (02:11) conference call. As we have done in the previous calls, we'll go over some brief

summary of the quarter results and then we will be available to answer any questions you have.

In the second quarter of 2006 (sic) [2016] (02:29), net revenue reached R\$321.7 million, representing a 4.2% decrease compared to prior year period, excluding the effects of the assets divested in the last 12 months. Our net revenue was impacted by the concession of temporary discounts, that target the financial recovery of our tenants and the reduction of delinquency rates.

General and administrative expenses fell 26% compared to the prior year period, totaling R\$24.4 million. This amounts to 7% of the gross revenue and efficiency improvement of 1.8 percentile points compared to Q2 2015.

Our adjusted EBITDA reached R\$230.1 million this quarter, while the adjusted EBITDA margin reached 71.5%. BRMALLS adjusted FFO reached R\$68.6 million in Q2 2006 (sic) [Q2 2016] (03:53), and adjusted FFO margin of 21.3%, a 105.8% growth compared to Q1 2016, with 11.3 points percentile margin increment.

BRMALLS was successful in executing its deleveraging strategy, showing a 5.7% reduction in net debt since the prior year periods. Excluding our perpetual bond, our net debt reduced by 8.3% since Q2 2015.

Occupancy cost this quarter reduced by 0.8 percentile points over Q1 2016, reaching 11.3%. Occupancy rate amounted to a quarterly average of 95.8%. In our portfolio, we have 28 assets with more than 97% of their GLA occupied.

The average occupancy rate of the 10 most representative malls in terms of NOI, which account for 55% of BRMALLS' total NOI, reached 97.6%. Despite the low confidence in Brazil and the challenging scenario for the retail sector, our renewals leasing spread reached to 10% this quarter, a 3.2 percentile points increment over Q1 2016.

In June, BRMALLS issued a R\$225 million securitized debt backed on a company debenture. The issuance comprise three tranches, the first at a rate of CDI+1.75%, 15-year term; the second tranche at a rate of CDI+1.67%, 12-year term; and the third, issued in July, at a rate of CDI+0.1%, five-year term. The last tranche was issued 55 bps below the initial guidance of CDI+0.65%.

On the April 29, 2016 General Meeting, our capital increased in favor of all shareholders was approved through the issuance of 140.1 million new shares distributed to all shareholders in the form of a 30% stock dividend.

Our share price at the end of the quarter stood at R\$12.85, an increment of 10.6% in the quarter and 53.7% year-to-date. Our share also outperformed the Ibovespa Index, which gained 17% since January. The average daily traded volume in the quarter reached R\$73.5 million, 27% higher than the prior year period, a significant increase in BRMALLS' share liquidity.

Now, we conclude our presentation. We are available to answer any questions you have.

## Q&A

### Operator

Ladies and gentlemen, we will now initiate the questions-and-answer section. Our first question comes from Mr. Ivan Enriquez from HSBC. You may proceed.

#### Q - Ivan Enriquez {BIO 17654188 <GO>}

Yes. Thanks, Frederico, thanks Derek for the call. My first question is related to the decreasing rents that we observed, close to 6.7%, and also your strategy to maintain compliance to these discounts(09:04). When I see the trend in same-store sales, it continued to decrease significantly. So, if you can help me understand the real dynamics and maybe overall economics activity and consumption activity that you're seeing currently in Brazil, that would be helpful. Thank you.

#### A - Derek Schwietzer Tang {BIO 20490146 <GO>}

Hi, Ivan. This is Derek speaking. Thank you for your question. And first, regarding the decrease in rents, as you may have observed, there was a reduction in our own GLA base year-over-year as well, which decreased at about 4.2% and there was also an increase of roughly 1% on our vacancy rate year-over-year, so both of which bring on an impact towards base rent variation. So, if you were to look at the base rent on a same mall basis, this increment - it actually increased by 1.5% and not decrease - I mean the overall figure decreased by 6.1%.

This was also impacted, as you might have noticed in the same-store rent, due to temporary discounts that were conceded to tenants on a very selective basis, but really at this point in time, assessing who are our top quality tenants, and opting to give a temporary relief for them, these discounts are usually no longer than three months. So that as things gradually improve and we're already starting to see a few positive or better indicators with regards to this, be it on our sales and same-store sales metrics in June, and eventually, in July as well, and also throughout the economy as things are improving, we will also be able to gradually decrease these levels of discounts that are being conceded.

#### Q - Ivan Enriquez {BIO 17654188 <GO>}

Okay. Thanks so much. Frederico, in regards of the overall consumption and economic activity, can you just give me a sense of what you're seeing? Thanks.

#### A - Derek Schwietzer Tang {BIO 20490146 <GO>}

Sure. Ivan (11:33), with regards to the overall consumption activity, I think this is also very much driven by consumer confidence, and to that note, we've seen the last three months, there was as an uptick in this indicator after a long and prolong period of declining consumer confidence in Brazil. So, this is already a positive and so, I mean, as we progress

towards the second half of this year, we've already seen better signs of - for potential consumption. I think another thing for us to keep in mind is that when looking at same-store sales outlook for the second half, as you might know, we don't provide guidance for this figure, but we're coming off a lower base. I mean when you look at 2015, there the first quarter and second quarter of 2015 had higher same-store sales figures than the third quarter and fourth quarter for the last year. So, this could also pose a benefit for towards this year.

**Q - Ivan Enriquez** {BIO 17654188 <GO>}

Okay. Excellent. Thanks, thanks so much.

## Operator

This concludes the question-and-answer section. 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 in our second part of 2016 conference call. If you have further questions, please contact us here at BR Malls. Have a great day.

## Operator

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

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