

Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Daniel Gasparete, Analyst
- Fanny Oreng, Analyst
- Gustavo Cambauva, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the brMalls' conference call to discuss Results regarding the Second Quarter of 2021.

We would like to inform that the participants attending the conference will be in listen-only mode, during the company's presentation and we will then open the question-and-answer session, when further instructions will be provided. (Operator Instructions).

Before proceeding, we would like to clarify that any statements that may be made during this conference call, regarding the company's business prospect, projections and operational and financial goals, constitute beliefs and premises of brMalls management as well as information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and premises, since they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect the company's future result that could lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to give the floor to Mr. Eduardo Langoni. Mr. Langoni, you may proceed, sir.

Eduardo Langoni {BIO 22105877 <GO>}

Good morning everyone. Thank you very much for attending our conference call to discuss the results of the second quarter 2021. I will start the presentation and then I'll turn the call over to Ruy.

We will start the presentation on Slide two. You noticed that during the second quarter, we recovered in our activities with sales and rent levels already close to pre-pandemic level. The acceleration of the vaccination program in Brazil and the relaxation of government restrictions increased consumer confidence and the demand for shopping activities and enjoyment in the malls. With fewer restrictions and with malls operating longer, operating hours in July reached 95.4% of regular hours, when compared to the same period in 2019. We are currently operating at 98.2% of regular hours. In line with this, the length of visit time in July reached 85.6% over 2019 demonstrating the confidence and trust of consumers in our asset. As a reflection, we see promising sales trend with July 2021 accounting for 94.1% of July 2019 sale.

On Slide three, we show the recovery of SSR, which this quarter showed levels close to those of 2019, a 4.7% reduction, demonstrating the occasional offer of discounts and the gradual recovery of rent levels. The average occupancy rate of our asset remained at 96.3%, the same rate presented in 2019. This reflect the strength and resilience of our portfolio, value proposition, based on our commercial relationship and growing interest of tenants with company's new solution. Below, we presented the occupancy cost at healthier level, reaching 12.5% in the quarter, a reduction of 12.2 percentage points when compared to the second quarter 2020. And finally we demonstrate the 254 new commercial proposals approved, reflecting the growing demand, the strong commercial performance in maintaining the higher occupancy rate and quality of the tenant mix. This shows that we are remaining as a preference in the choices made by 10 consumers.

On the next slide, we present the main financial indicators highlighting the evolution of net revenue, which reached BRL261.9 million, minus 13.6% versus 2019 and 41.2% over 2020, showing the recovery of rent level. In June, the minimum rent exceeded by 3% the values presented in 2019. The NOI for the quarter totaled BRL232.5 million, with margin of 89%, the same level as in 2019.

On Slide five, we show our PDD, which totaled BRL43.3 million in the quarter, partially impacted by the temporary interruption in some tenants credit recovery processes due to the migration to our new ERP system, Oracle Cloud and also the effect of late payments caused by the restrictions in the operation, mainly in the month of April and March. It is important to mention that brMalls adopt in its (technical difficulty) marking in the range based on the tenants earliest maturity date, considering both the amounts that are due and those that are overdue. Therefore in addition to the provisions based on the maturity of the payment slip, which generated the amount of BRL26.5 million, there was an advance provision of BRL16.8 million according to the range per tenant criterion adopted by brMall. As a result, our adjusted EBITDA reached BRL140.1 million and the AFFO adjusted totaled BRL68.6 million.

On Slide six, we will talk about the company's capital structure. We ended the quarter with a cash position of BRL1.8 billion and gross debt of BRL4.2 billion, without major changes when comparing to the first quarter 2021. The company maintains its robust capital

structure and solid liquidity position in addition to portfolio of high quality unencumbered assets.

I'll turn the call to Ruy for him to continue the presentation.

Ruy Kameyama {BIO 16672412 <GO>}

Good morning, everyone. Thank you Langoni. Let's move on from Slide seven, where we highlight the history of consumers NPS. This quarter we set a historical record beside the foundations of our business remain unchanged and that our consumers continue to be strongly engaged with our malls. As a prominent example of evolution of NPS, shopping Catuai Londrina located in exterior [ph] of Parana, a key region in the agribusiness sector, grew 14.6 P.P according to a survey conducted between 2018 and 2019, reaching 85.9%. Through the commercial strategy, we were able to offer an unprecedented mix for the city with several exclusive stores that did not have units in Londrina. In addition to a wide variety of services, gastronomy with nationally relevant brands such as Cocco Bambu and Mayfair [ph] and this all helped us to improve the local consumers experience.

On Slide eight, we have details on the evolution of our business model, based on the digital strategy. We are a platform that connect consumers, tenants, and advertisers. And we aim to increase the value proposition for each of them. And consequently, we want to use the pillars of data capture, omnichannel and digital media. In second quarter '21 for the eight malls where we have the loyalty program, we reached 175,000 members with a sales penetration of about 11.5%. And in our top four NOI, this penetration reached 15% of total sale. Our target is to reach 30% of sales in December 2021 and this is very important for us to know consumers their habits and the potential that we can add to our model. In the omnichannel pillar, we had major milestones, both in sales and delivery channels. Sales per shopping assistant reached one stop channel have shown recurrence and high conversion rate, which shows that consumer engagement with different shopping solution. As to deliveries, we reached the mark of 1.2 million deliveries in the last 12 months from our shopping malls with increasingly efficient cost. And this is a very important opportunity for our tenants. In digital media, we continue to strengthen our sales strategy by adding three more malls to the -- our portfolio reaching 68 malls and this is a subsidiary of digital media. Our inventory is 100% digital and prepared to generate brand experience. More than 70 million people have been impacted by this, and we have established a relationship and access with many agencies and advertisers. The share of the business has been growing every quarter and this vertical is very important for us to monetize the data looking forward.

On the following slide, we can see two projects that reinforce brMalls strategy to strengthen and increase the attractiveness of our shopping malls for consumers and tenant. The expansion of Shopping Tijuca, which will provide a brand new meaning to an external area of 6000 square meters and redevelopment of Shopping Tambore, which will transform the 6000 square meter space occupied by anchor shop, and we will bring new options in outdoor environment and also the TasteLab. And in the second half, we will continue the project of retrofit in five malls.

We close our presentation here. And we are going to open the Q&A session.

Questions And Answers

Operator

Thank you. We are now going to start the Q&A session. (Operator Instructions) First question comes from Ferraz from Itau BBA. You may proceed, sir.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you very much for the presentation. The first question is related to the mix you provided important data (technical difficulty) and you gave highlight of services. I would like you to make some comments on other sectors (technical difficulty) Now, the second question is related to sales (technical difficulty) how do you see this reflecting on the results?

A - Eduardo Langoni {BIO 22105877 <GO>}

Hi, Andrea [ph]. Thank you very much for the question. It was not very clear, but I think I understood that the question was related to the evolution of mix and the perspective, what kind of changes and what are the new segment that's coming in, going out and the level of turnover. This is what I could get (technical difficulty) something really important, we closely -- we closely watched all the commercial proposal, this is something very active in our business. We had 170 agreements that was high, so the volume is very significant. So we see a lot of possibilities and we see a lot of movement in the mix (technical difficulty) sports items and articles for home and this gives us information about the consumer habit and this is natural concern, if we are focused on well-being, sports, items which are connected to the consumers experience and people are valuing staying home more and writing more quality in -- when they are home and which are the segments where we see some reduction, where we see some sort of adjustment. We see some turnover in some brands. We see consumers have migrated brands and the new brands are being replaced by the previous one. And we see that there are new brands in the market. Ober, KFC, in addition to the Brazilian bread. So we see a lot of movement, a lot of high level of turnover in terms of outfit and clothing, we see a reduction even though it's still small, we see a reduction in the share of our mix.

And this reflect the different habit, in the last month as people were home for a long time and people are changing their wardrobes, they are renewing their wardrobe. So when we look at what's happening in the United States, we see what's going to happen here. So we see people have this concern of not feeling well, dressing well. And in terms of general turnover, we see some level of stability. We don't see a lot of change in comparison to the previous quarter. And what we see is growing demand of brand, one thing to expand, resume their activities. So we are not concerned about the turnover on the contrary, what we are likely to see is an improvement in the turnover, at growing demand and considering that expansion program is making headway.

Q - Alex Ferraz {BIO 19294308 <GO>}

Perfect. That was so clear thank you very much.

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Bloomberg Transcript

Operator

(Operator Instructions) Next question comes from Andre Mazini with Citi. You may proceed sir.

Q - Andre Mazini {BIO 20377100 <GO>}

Hello (inaudible) Langoni, thank you for the call, for the presentation. And the first question is related to what happened at the end of March (technical difficulty), how do you see changes that happened end of March on the balance sheet? (technical difficulty) so what's the rationale in terms of, differences in costs and how does it play out in the market? My other question is related (technical difficulty) when you mentioned GMV, so what's the difference (technical difficulty) compared to what you had before? can you measure (technical difficulty) level of sales of each area. In addition, which item is being sold? What kind of perfume, for example you would sell more? How assertive are you being? What is advantage of having this level of assortment and matters of payments as well, is this being monitored? So what are the advantages of collecting so much information? Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for the question. In terms of debentures, so -- it was a very important tools for us considering all the uncertainties that was brought by COVID, all the fears about this pandemic and how to operate in the capital market and we were very conservative. We reinforced the liquidity of the company, we brought more flexibility to the company, with the debentures and it helped us in terms of covenant. And as you said, it has a growing cost. So our idea is that in the future, considering the flexibility of being able to prepay the debt which was structured this way. So we have this flexibility and at the right moment we might resort to it and replace it with the other opportunity that we see. And it was important to bring in this flexibility to our capital structure at the moment of uncertainty. I don't know if I answer that, we might replace it when time comes.

In terms of data collected of course it is very important for the model that we adopting how shopping malls can add value to the consumers and to the tenants. And the malls so far knew a lot about the tenants, but very little about the consumers. And then what we are modeling in this business model is to have a company more focused on the consumer. And to that end we really need to know who is each of the person that visit our shopping malls. Andre Mazini would come to our shopping malls. So we would like -- we need to know that what he likes, he likes sports, he likes which types of movies, his family is like this or like that and he has those habits and we can only know this if we capture granular data. It's no use to know that it's a man, his age bracket is from 30 to 50 years old. We need to know more about this consumer, we need to know what are the transactions that he does and how recurrent are his purchases and how often and only then we can understand more deeply who is Andre. And what can we offer that will make him come back to our shopping malls more often, what is more relevant to him and as a consequence that would expand our share.

And when we look ahead and put this together with other features that we are developing like knowing the consumer journey at the mall, what are the stores that the

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consumer visits, which are the windows that he stops to look at. So we collect more relevant data, not only for us, but for the consumers who -- and if we can also use better channels in a smarter way and use this information for the benefit of the tenants. So the tenants can use our platform to communicate with that consumer. So the sports tenant can send messages to this consumer and he understand that he is a 100 -- it's the consumers within the tenants target and this is something that we want to do in the near future. It's not a distant reality. And when you think off consumer that goes to the shopping mall, you understand that this will be much more relevant to him and the tenant will have something that did not exist in the past. So we are going to map out all the consumers and we'll have a communication at the right time to the right person with data intelligence.

Q - Andre Mazini {BIO 20377100 <GO>}

Perfect. Thank you.

A - Eduardo Langoni {BIO 22105877 <GO>}

Thanks Mazini, good morning.

Operator

Our next question comes from Fanny with Santander. You may proceed. Ma'am.

Q - Fanny Oreng {BIO 21102709 <GO>}

Good morning.

A - Eduardo Langoni {BIO 22105877 <GO>}

Good morning.

Q - Fanny Oreng {BIO 21102709 <GO>}

It would be interesting if you could provide more information about the implementation of ERP? Because it's a bit difficult for me to understand, what happened?

I have a second question, in relation -- conservative provision system, when you see (technical difficulty) comes with the delay payment, what do you mean to say is that the tenant is already delayed in his payment and how do you make the provision? And that would be my second question in relation to the provision. And if you could provide more information about the late payments levels and provision, so I appreciate if you could provide us with some more color?

A - Eduardo Langoni {BIO 22105877 <GO>}

Thank you for the question. In relation to the go-live of the new ERP, of course we face some difficulties and that affected our late payments level. We have motivation very clear to replace the ERP, with Oracle Cloud then why we didn't do that? What was the reason we went to replace it? We were looking for an ERP that had tolerable modular structure

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and then we were using the previous system that did not offer those benefits. On the contrary, we had some difficulties in operation, when we wanted to implement new business lines as we have been commenting in our calls, digital channels, media, it started -- we started to face difficulties when we were using the previous ERP. So we decided to have this new platform that would provide us with modular systems that go live, the replacement from the previous system. The new system happened on April 5th, the first week of April and we needed to disconnect the previous system and connect to the new one, connect with the Oracle Cloud. And when we made this migration and we know it's normal, if you have -- it is normal to have a period in which it's difficult to load the data. There is a window where the invoicing the reports and the net negotiation is diversely affected. And this is what happened and we had some difficulties for about three weeks in April and during this period, we had some difficulties to generate payments made. We had some difficulties to reconcile some payments and some other operational difficulties. And when we were connecting other company running at this new system because we're not only talking about the new system it is a means of operating it in the cloud. So it's a high volume considering the company and we face difficulties to manage all these and that lasted 7 days in the second quarter.

So what's happening now. We have already had the first refresh the first technological update, we in practice we have advanced the efficiency of this platform. So we had some improvements in the internal validation. It's doing well, it's operational and the backlog that was generated in April that may have some impact in May has the already settled for payments and for reporting, but without a doubt it caused a relevant impact on us. There was a black out of that we had to live with and that affected our activities and are receiving operation that is already operational and the late payment is very close to the levels that we use to see before that and June. Also, as you can see in the report. So going forward you will see that our system is operational. it's improving every week and the team is very well trained to start using the completely new ERP and we will make improvements every week and we will understand how to use the tool. So we look into the future with a lot of confidence and leaving behind what all the problems that we had.

And in relation to the provisioning criteria. (technical difficulty) So we work with ranges. So we consider the snapshot of the late payment, not the history. So is the payment is late payments last 60 days, we will consider the 30 day late payment as historical levels, and we have adopted a very conservative criteria. And we even include those payments, which will fall due so we provision even those which are within the deadline. We are very conservative in making our provisions. So we understand that by using the ERP together with this criteria, we understand we are going to have the net late payments level as lower great (technical difficulty) if -- we are going to bring this late payment levels at lower levels and this will be -- will reflect the provisioning system and then we will be able to make the recoveries when the moment is more favorable. So it will be very favorable when the recovery starts to happen, so this is the expectations that we have looking forward.

Q - Fanny Oreng {BIO 21102709 <GO>}

Can we expect any kind of review for the third quarter (technical difficulty) provisioning that you had so far?

A - Ruy Kameyama {BIO 16672412 <GO>}

Yes. We expect (technical difficulty) statements levels to be much better than the previous quarter, but for the fourth quarter we expect this level to be even better.

Q - Fanny Oreng {BIO 21102709 <GO>}

Okay, perfect. Ruy, thank you very much.

A - Eduardo Langoni {BIO 22105877 <GO>}

Thank you, Fanny. Have a good day.

Operator

Our next question comes from Gustavo Cambauva with BTG Pactual. You may proceed, sir.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hello. Good morning, everyone. (technical difficulty) I understand the ERP issues. What I would imagine, if you do not charge, because you hadn't been able to issue payments slip. I believe (technical difficulty) as you said, it hasn't happened so far. So I would like to understand what are the negotiations lie with the tenant now that the malls have there nearly regular operating hours, and sales have recovered to pre-pandemic levels, Could be a time to be tougher as to charging our offering less discount? (technical difficulty) maybe if it is the right moment to accelerate this process and work this basis tenants. So how are you considering going about this topic?

A - Ruy Kameyama {BIO 16672412 <GO>}

Thanks for the question. Our expectation is to recover the values that were left behind. We had this difficulties, charge the tenant so it was difficult to generate the payments (technical difficulty) and charge the tenant. But the right of receiving continues our right and we are going to recover this receiving. So Fanny's question was related to our expectations. And we do not provide specific guidance, but we are going to recover this, that we will be very favorable to our net late payments, because we have this right, and we are going to charge all the amounts in the future months.

Then you are asking how do we see the commercial policies offering discounts or not. So what's our criteria, our policy? We understood that we were facing a various typical moment. We needed it to give them some flexibility, some air for them to breath. So we understood that some tenants were not capitalized. We decided to help them when this we were facing drop in sales. We see that sale the recovery, sales have been on a upward trend for five months now. Sales are recovering and they are facing at this moment. And in terms of occupancy rate is very healthy. So what we understand that it is time for us continue being very close, working close to them helping them to develop new conditions in using the omni channel, using them so that they can have an ever-stronger business, but from the viewpoint of discounts than commercial tool we have been reducing those discounts. So we are going to reduce the level of discounts in the future month and this is

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something that is already happening. We are going to normalize the discounts at fast speed and naturally, this is going to reflect in the late payment levels. (technical difficulty) and yes we shared, we should be tougher with them. I wouldn't say this or I didn't use this term, I would say that we are moving towards normalization. And tenant have an occupancy rate, which is at a very high level. So there is a lot of trust though the sale normalization is going to be very favorable to them and also to us in terms of rent payments.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. Thank you, have a good day.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

Our next question from Bruno with Bradesco BBl. You may proceed sir.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Good morning. Thank you for the presentation. (technical difficulty) question. In terms of M&A -- in terms of leverage, the covenant have been very favorable. What would be the M&A options, if you are interested in purchasing asset in the future?

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning. Thank you for the question. M&A is part of our strategy. we have a track record to create a lot of value by means of acquisitions and pre-COVID quarters we had made some acquisitions. And we had an additional participation in (technical difficulty) so part of the strategy is to grow inorganically. During the COVID months, diversification became very difficult, there was an fee acceleration of the acquisitions in the entire sector, so we are likely to invest in opportunities related to acquisition in this sector. And as we see it our balance sheet is very strong and that allows us to have this flexibility. We have a net debt, pre-COVID that was about 2.5 times healthy level, strong balance sheet, liquidity even for the capital market. And looking into the future as our nominal debt did not grow that much the EBITDA had dropped, considering the scenario as EBITDA goes to regular levels, we will have space in our balance sheet to look at those opportunities. And all those assets that would fill into our portfolio strategy. We concentrated the portfolio and increase the quality of the portfolio and this is a kind of dominant asset that we need to continue to be after that would strengthen our scale as a whole.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Very clear. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you Bruno. Have a good day.

Bloomberg Transcript

Operator

Our next question from Daniel with Credit Suisse. You may proceed, sir.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning everyone. Thank you for the call. (technical difficulty) work at cost which are a bit higher than historical levels or is it time for your continued support in the tenants (technical difficulty) can recompose their cash? How do you see the cost of occupancy and considering this cost, what did you expect for the future?

A - Eduardo Langoni {BIO 22105877 <GO>}

Hi Daniel. Good morning thanks for the question. When we look into the future, when we think about considering the occupancy cost and removing the discount, we believe that the fourth quarter to be very strong. It's probably one of the best Christmas time we ever had in the past years. So we have this demand that is just waiting to be used and this is all favored by the vaccination program. And on the fourth quarter, people are likely to be fully vaccinated by then. So we are going to have the strong sales for Christmas and this is what tenants are expecting they are preparing their inventory levels and of course we look at the occupancy level now, but we look what will happen in the future.

So the removal of discount will reflect this kind of dynamics. We believe the foundations continue to be very solid in terms of retailing the tenants and the consumers see that the best option for retail operations in an organized way that adds to other activities such as gastronomy. So these are all foundations that are going to be very strong at the end of this year and next year. So we are likely to have very good quarters in the future and it will provide us space, but to be removing discounts gradually. And as you said, you mentioned occupancy cost and we made a lot of effort in this area to be more efficient. We need to optimize the energy use, which is something very important in our cost curve (technical difficulty) organic team. we had very important cases. So part of this we had restricted working hours, now that we're operating at full speed we are likely to be much more efficient than we were in 2019. And this savings are going to be passed on to the tenants, because this is part of the occupancy cost. We had condominium cost, that is impacted in the NOI. So we see that the cost of this NOI was much lower than what we have reported in 2019, so that shows the efficiency in cost and even if the malls operator (technical difficulty) has a percent of the time, we are likely to maintain all those cost efficiency to the benefits of the tenants.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you for those answers. Have a nice weekend evening everyone.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you. You too.

Operator

Our next question comes from Jonathan (inaudible) with JP Morgan, you may proceed.

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Q - Unidentified Participant

Good morning. Thanks for the question. The question is related to M&A. (technical difficulty) I would like to know about the ramp up for the second half of 2021 and how this is going to impact the balance sheet?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hi Jonathan, good morning, could you repeat the second question?

Q - Unidentified Participant

Yes, of course. (technical difficulty)

A - Ruy Kameyama {BIO 16672412 <GO>}

About M&A, you were saying about the competition in the real estate funds, how we see that? We do not see them as competition considering the kind of asset that we're looking for real estate funds usually have passive investors. In general, they do not have the expertise for managing malls, they need -- they prefer to associate with those who have the expertise. And this models are ever more complex than different though the kind of assets we are looking for are those where we can manage, where we can demand new solutions, that are being developed and create value by means of this. In fact we believe that (technical difficulty) are important to provide liquidity to the market. We had the recycling of the portfolio very much based on the real estate funds. So they are very important for the design in the sector, but specifically for the assets we're looking for since we have active management we commercialize. And we provide solutions. So, we understand we have a different asset profile. And is to the multi huge the market is heated so the residential multi use products related to health are at a high and the shopping malls are very important for consumers to purchase those products. So we see this in a very positive manner raising working on this and we expect that in the next quarters we are going to bring some news to you and we see a lot of potential (technical difficulty) related product and this is something we're going to monetize in the future.

Q - Unidentified Participant

Okay. Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Jonathan. Have a good day.

Operator

There are no further questions. I would like to turn the floor back to Mr. Ruy Kameyama for his final remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you everyone for taking part in our call. Langoni, Juliana, and I and the IR team are available to take any questions or any clarifications you might need. Have a good day.

Operator

BrMalls' conference call is completed. We would like to thank you for your participation and have a nice day.

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