Y 2019 Earnings Call

Company Participants

- Armando d'Almeida Neto, Executive Vice President and Investor Relations Officer
- Jose Isaac Peres, Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Jorel Guilloty, Analyst
- Luis Stacchini, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Multiplan's Conference Call regarding the results of the Fourth Quarter of 2019. We have with us Mr. Jose Isaac Peres, CEO; Mr. Amando d'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, IR and Planning Director; and Mr. Franco Carrion, IR Manager.

We would like to inform you that the presentation to be made is available for download at ir.multiplan.com.br.

We would like to inform you that participants will be in listen-only mode during the company's presentation. Afterwards we will have a Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call in relation to the Company's business perspectives, operating and financial projections and targets, our beliefs and assumptions of Multiplan's management, as well as information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the Company and may lead to results that differ materially from those expressed in such forward-looking statements.

This call will last 60 minutes, after this period, the Investor Relations area will be available to you, should you still have doubt.

Now we would like to turn the floor over to Mr. Jose Isaac Peres, CEO, who will start the presentation. Mr. Peres. Good morning. Thank you for the opportunity and you may proceed.

Jose Isaac Peres {BIO 15388489 <GO>}

Good morning, everybody, ladies -- gentlemen and thank you for your patience to participate in our call. I would like to mention that I made a recent surgery on my -- one of my eyes and I can barely see. But very soon, I will be able to see with two eyes. Okay. So I would like to say that we are presenting our results of 2019, which was a year of major transformations in Brazil. A year of strengthening mainly of our own company and Multiplan in these 45 years of existence was -- had the joy of reaching this moment when the economy is recovering and the economy is giving very positive signs. And I see the number of Executive jets that are flying in our skies in the last few years. I have flown a lot in Brazil and I reach airport and there was nobody else. And recently, I went to Curitiba because I -- we carried out an expansion of one of our malls and I got to Curitiba and the manager said, well, things are fantastic here. You can see how many private jets are flying. And so this is a concrete sign that the economy is really soaring or taking off in an analogy.

So, I see that aircraft lease, and even the ones that I use once in a while, has a very high demand today and we have no doubt whatsoever that Brazil will be taking-off really in the next few years and now. But I would like to say that we have celebrated 45 years of age. And in the current scenario, we see a much more positive situation. We are seeking more and more to improve our activity to upgrade it, and the results that we obtained this year once again show that we were able to find a path towards growth.

The adjusted net income of the company or the NOI of the Company exceeded BRL1.5 billion, with a lot of work done with the mix and the offering of new solutions in order to solve not only our lives, but also our consumers' lives. Because our focus are our customers, our clients. And as I repeat all the time, God is the consumer and the tenants are the Kings and we are only service providers. Our occupancy rate exceeded -- the adjusted net income was BRL0.5 billion correcting. And our occupancy rate was 98%.

So we have recovered that. It is almost impossible for those who understand shopping centers, it's almost impossible to imagine that you will have a 100% occupancy rate. If you have one anchor store levy, you have to adjust it down to 1% or 2%. And the quality of our portfolio and the gradual recovery of consumption accelerated the sales of stores that reached a new record. And this year up to December '19, sales reached BRL16.3 billion, growing by 5.4%. And you could maybe say well, may be 5.4% is not so much, it should be 10% or 15%, but you must see that we have 4% interest rate and a growth rate of about 3%.

So every time we have 10%, it is exceptional, it's outstanding. When we look at the last 10 years, we can see that even with a challenging decade almost the last decade, our malls posted sales increase almost every year and the NOI of these assets are -- more than tripled in the period. Although it was a very difficult decade. And with the real growth, much higher than inflation. Today, we see a wider revenue for private initiative, contributing towards the increase of efficiency and the expansion of investment in Brazil, generating new jobs and reinforcing the basis for society and Multiplan never stopped investing.

And we have always done that. Last year, if I'm not mistaken, we invested about BRL787 [ph] million and this year, I believe that we have already announced about BRL1 billion in investments to be made this year. Another important factor that we have a GLA of 921,000 meters -- square meters and we will reach 960,000 meters of GLA, with Jacarepagua. And on the other hand, it's important to see that we have 820,000 square meters of land acquired by the Company, at a low book value. These are areas that are neighboring to our projects and we will have build area -- floor area of 1 million square meters in the next two years and we have 820,000 square meters

In our land bank, with the coefficient of one time, the use of the land. And even with one time, this could represent for the company. The realization of BRL10 billion in project in the next two years.

And the project alone that we are going to start this year in Porto Alegre integrated to our shopping in the south -- of our shopping south. We have a project that represents an investment over 10 years' time, or a PSV of BRL3 [ph] billion -- with BRL1 billion in income. It is similar to what we did in Rio, the Golden Green, this is a very good project and it took us 10 years to do that and we are doing this as we sell, we do not have the intention of launching 10 or 20 builders at one time.

We will have -- this is a top quality project, it is fully integrated. It is a closed condominium and with approximately 19 neighboring [ph] Shopping center in Porto Alegre, 19 buildings. I would like to draw your attention to some data, I have a problem with my eyesight, as I said -- as I have already said, but let's see.

Okay. We had an adjusted net income of BRL536 million and this adjustment is made based on the appreciation of our shares, if it were not that, it would be BRL536 million, BRL470 million net, very close to what we had last year. But this year we had an appreciation of 36% in our shares and this had an impact on the financial results -- for the accounting, the accounting result, and not the financial results.

I would like to mention a few points that I consider as important as the one that I have already mentioned. BH Shopping is one of the

Five first shopping that we built. And it had positive growth of 7% in sales last year. We have 100% stake in this shopping center. The MorumbiShopping center, very important, one of the first that we build, 10% increase in this quarter. And BarraShopping growing by 7.5%, in spite of all the difficulties in Rio de Janeiro that everybody is aware of. And our newest shopping center the ParkShopping Canoas, grew by 15.9% in sales, which is a very important fact as well.

Another important point is our investment in terms of sustainability and we see with a lot of joy, the result of our photovoltaic plant that today supplies, a 100% of the energy, clean energy to this shopping center and the Village Mall. And we have also the Park Jacarepagua, another green project that we will start totally integrated to nature with a high sustainability.

This year, we started to expand this ParkShoppingBarigui, and we have an additional 150,000 square meters to develop and some have already been announced and another relevant fact is the acquisition of the Diamond Mall. And we are starting the expansion of the floor area of this shopping center this year.

In the last 12 months, we announced investments amounting to almost BRL1 billion, it is almost the largest investment ever made by the Company ever since it became a listed Company during a one-year period. And I believe that our investments will be even higher, and we made these investments without waiving the modernization of the shopping centers that are already in operation and maintaining our commitment to generate more and more pleasure to people. And integrating to our products, more services, leisure and culture options. And I would like to draw your attention to a recent initiative. We took over the management of the theater, located in the VillageMall and now it has a new name, the Auto-Multiplan because we are the sponsors and we are re-qualifying the content and make investments in culture and incentivizing art.

So Multiplan starts to operate it on theater with the objective of bringing new shows and improving the quality of the cultural events that are held there. And another point that is of great important to us is the partnership that we established with the Delivery Center. It is a pioneer in the integration of the physical world with the digital world. Last month, we announced a new investment in this Company, the Delivery Center and this operation has been contributing towards the success of our superapp, named Multi, which will be even more important in mid-July of this year and that already has a 160,000 downloads. And Delivery Center guarantees, logistic excellence to the Superapp delivery service and one of the many functionalities offered by the company.

And I would like to mention that still in 2019, we paid BRL280 million to our shareholders as interest on equity. And I would like to thank you all very much. This is very encouraging. The company has started again the investments and during this year, we will probably have new investments and we expect to keep this level of development of quality always focusing on the consumers and adapting to the new consumption needs that are totally different than the ones that we had 10 years ago already. And for this reason, we continue to invest a lot in technology and we understand that the apps that we will be offering will be facilitators to our consumers.

And of course, offering our tenants almost a virtual store, our tenants will continue to have their brick and mortar stores, plus the virtual stores. We are already working hands-on, on this project and we intend to start this, this year. I would like to thank you all very much, our employees, our tenants, our investors and everybody that participated in this ongoing growth process.

And I would like to thank you for your confidence, those of you who have been following us during all these years. And I apologize for the difficult reading that I delivered this year because I have problems reading with one eye only. But very soon, I will have the two eyes very wide open.

So now Almeida -- Armando d'Almeida. Good morning. It's a very big challenge to summarize the many highlights that I would like to mention for the fourth quarter. On the operating asset, when compared to 4Q '18, we see a growth in sales of 6.8% with same-store sales of 5.8%. Rental revenue increased by 5.5%, whereas same-store rent was 8.3% and if you read our report, you see the change in the weight of the segments in the mix of our stores over the years. Especially with the increase in the services, entertainment and food segments. And this brought about a higher distribution of sales or a different one over the year, that is to see a lower concentration in December. More and more over the years, with the change in mix, we see a different distribution and another relevant point were the sales occurred during the Black Friday. Growing in importance in Brazil, and representing more in our overall sales, the occupancy rate. As Mr. Peres said was 98%, the highest since the first quarter of 2016. And the occupancy cost dropped by 15 basis points to 11.6%, very positive, very favorable. And one of the reasons for that was the photovoltaic plant, but in fact it is a process of reducing our condominium costs gradually. And it was five points lower in the year, led by going to 12.6%. The NOI grew 4.7% in the quarter, reaching BRL1.2 billion in the year. EBITDA growing by 9.9% in the quarter, reaching BRL932 million in 2019, and net income growing by 26.3% reaching BRL471 million also in 2019 and as Mr. Peres said, if adjusted by the shares of BRL131 million. This year we gave back to our shareholders BRL280 million in interest on equity, the highest amount ever distributed by the Company and we invested an addition of BRL787 million, primarily in acquisition of minority stakes in our shopping centers, development of new projects and revitalization, in this amount that we announced, we are not included the preemptive right, the exercise of the preemptive right, in the fourth quarter, the part -- the stake RibeiroShopping ParkShopping centers Ursula, as well as the acquisition of 50.1% in Diamond Mall that was closed in January 2020 and not in 2019. Net debt of the company closed the year at 2.39 times EBITDA, whereas the average weighted cost of the gross debt was 5.4%, 85 basis points higher than the Selic rate, 4.5% that closed the year in 4.5% and now 4.25%. Certainly, the lowest rate paid over the 45 years of age of the Company and I would like to mention as well that between September and December 2019, we renegotiated BRL820 million in debt, representing savings at present value for the Company of BRL50.5 million, and due to the scheduled payment of interest on equity and the settlement of the preemptive rights, already announced, we expect a financial leverage, slightly higher than -- at the beginning of 2020. And it's good to have this, when you have the lowest interest rate ever in the country. Multi, our superapp, developed to be useful and relevant for people that are already clients of the Multiplan's shopping centers had 160,000 downloads. We launched the superapp in August, July, August, September and by the end of the year, 160,000 downloads overall in this very short span of time. All our shopping centers are present at the app, 19 shopping centers and the app is present with many functionalities and in four of them, with already integrated sales, and the idea is to expand this over time and we will continue to add new functionalities, making Multi more and more relevant, more important for the people who come to our shopping centers. And we have also brought some case studies in our report. We tried to show the value created and the resilience of properties that are well located and well managed over the years. And I would like to highlight the case that is on page, if I'm not mistaken 17 of our report that shows the strong growth of sales in NOI over the years. And also the study that is on page 25 of the report that shows the evolution of the NOI, the NOI yield -- the yield, the return that they have when compared to the invested CapEx. And of the seven project, five shopping centers and two towers delivered between 2011, 2013 consolidated at a very difficult moment, but we are consolidated already giving a return of 15.4% in 2019. And when the Selic was 4.5% and this shows the value creation, the value generation by means of these developments. And I believe that these studies show the attractiveness over time of the development of new project and also they encouraged us to tap into the many growth opportunities that we have in our Company. We thank you very much for your support, for your interest and now we would like to open the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, now we will have a Q&A session. (Operator Instructions) The first question is from Luis Stacchini from Credit Suisse.

A - Armando d'Almeida Neto

Good morning Luis.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning, everybody. Thank you Armando, Peres. I have two questions. The first is related to investments. You have increased the number of announcements of acquisitions and minority stakes and new projects and I would like to know, what you intend to do in the scenario of reduction in the cost of debt and lower interest rate and to which extent do you see Multiplan reaching net debt to EBITDA ratio, that is to say, when you have the opportunity, where do you intend to go in this sense or what would be delivered. But do you have an expectation of the launch of the first phase and what would be reasonable to expect in terms of gross margin in this project. Thank you very much.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Luis, this is Jose Isaac Peres, I'm answering your question about the Golden Lake project. The Golden Lake project is located in 180,000 square meters in the surface, next to the BarraShopping, two -- or the Jockey Club. This is a top quality project, the same standard of the Golden Green, that is considered the best closed condominium in the country.

With 12 buildings and two clubs in this condo, is a code of '18-'19 buildings and we understand we are going to do this over a 10-year time. The project has already been approved and the South is extremely strict in terms of the environment and architecture et cetera. And it took us 10 years to have these projects approved, then they were finally approved last month. But it is already very well developed and in the short time, I believe that in June, we will be making our first launch, already having the urbanization [ph] of the whole area.

This project represents BRL3 billion in PSV and we'll give the company a reasonable profit, we believe around BRL1 billion and when you do everything at present value, of course, it is less. But on the other hand, this is not on the radar screen of the Company today because we live based on income. So the financial results that we will be obtaining in the next two years, a result that will be adding to the results of the shopping centers, including the new expansions. And I believe that this project is unprecedented in Brazil. It is right next to the Guaiba, it's on the banks of the Guaiba bank and integrated to -- two nautical clubs and we expect to present this to the real estate market. As a new concept for a real estate project. But the company is very well capitalized and very confident. We have enough funds to continue these projects, a very careful manner. In relation to the debt you know that we are very cautious in terms of debt, but considering the fact that the world has totally changed, and that the interest rates are almost negative interest rate. We understand that we can increase our debt now, should this be necessary without having to increase our capital.

We are going to hold back the Company in this sense, less capitalization and more debt. I am an entrepreneur, I have been in the market for 57 years already and I'm not that old. Because in spite of my age, I'm not old okay. Because cardiological age is one thing and becoming old is an option, and this is not my option. So I'm not getting old.

Well, I have never imagined in this half-century of business life. I have never imagine that we would have less than 12% nominal interest rate a year. And we are around 4%, this is really the real as far as I'm concerned, and I have been through so many crisis. And I think this is very encouraging and it is very encouraging to see that we have now an administration in place that thinks in a very straightforward manner and thinks about the development of the country and the reduction in the size of the government or the cost of the government, because we have an inefficient and huge government. And we are talking about reducing taxes because it is no use carrying out a tax reform. If the government or the administration continues to be that heavy.

And I'm very encouraged about that and I'm happy to say that for instance, in 1963 when I started my first project was 1963. So it was the pre-revolution period. So I had to face the 10 or 12 crisis, and we have survived all of them. And now we find a much, much better situation, clear skies, I have -- please, I would like to add one point, we are at 2.4 and you take the EBITDA. And let's say, it does not grow, then we would be talking about BRL1.5 billion increase in leverage and when we think about development, we have the base of the project and when it will be launched. So it's very easy for us to have a cash flow and the only factor is the opportunity, you don't know when it is going to arise.

So you have to react very quickly to an opportunity and for that we have a very good space so to say. The real estate fund, industry grew a lot. We have many partners and other shopping center companies as well. We can do a lot and tap into these opportunities. And our biggest partner is the shareholder, this is something, I would like to highlight. We have many people wanting to be together, hand-in-hand with the company in this project. But as much as possible, we try to keep within our own possibilities and we have an excellent technical structure. So we preserve this technical structure in spite of the moment of crisis and now we are going to reap the fruits from these investments that we have made.

Thank you, Luis.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you very much.

Operator

Mr. Alex Ferraz from Itau BBA.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning. Good morning. Peres, Armando thank you for the presentation. I have two questions. The first is related to something that Armando said during the presentation. Every fourth quarter you show the gross leasable area per segment and year-on-year '19 against what we saw was a structural change in the services sector, gaining relevant.

But in 12 months, we see that this -- it was reasonably stable. So what major change do you foresee in this sense. It seems to me that there is a good adjustments nowadays and do you foresee a very big change or do you believe that this whole wave of services has already been adjusted to your portfolio? And the CapEx of the greenfield, you highlighted Jacarepagua and also to the Global Park. Do you have a CapEx for Parque Global already or are you reviewing the project in the specs before you launch the project?

A - Armando d'Almeida Neto

Alex, good morning and thank you for the questions. These changes in segment are not something that happens overnight or all at the same time, and they do not disappear totally in the following year. This is something that undergoes a transformation and the best way is to show you in the managerial report on page 10. But when you take the 10 years, you will see a more expressive change and another example of that, is the turnover and this will be helping you, together with the changing segmentation. Last year we had a turnover, I expected it to be lower than 2018.

Because of the economy, because of the crisis, but -- it was [ph] 5.2% of the gross leasable area 42,000 square meters almost. And with a large Shopping Center, 533 [ph] tenant more than Jacarepagua. And we are bringing better operations, new operations, even in the same segments. We are bringing new ideas, new concepts, new ways to establish a relationship with the consumers. And this drives the change in segments over time. In relation to the Global Park, We have CapEx, we have investments and the project is being re-discussed. And will be submitted to approval and we will be waiting for the approval of the project in order to be able to continue. But there is always some kind of expense and also investments, they have been small so far, because of the stage in terms of approval and the change in mix, you can see in the new project.

It is a totally different concept, you see many more different services of restaurant or green areas, when compared to the already existing project, Jacarepagua the amount of entertainment and restaurants, et cetera. In Jacarepagua and amusement and services, this is totally different. And this change is the concept of a shopping center, the integration with the green leisure and commerce. We have always based ourselves on -- we are along these lines, it's a little bit art, a little bit fun, a little bit entertainment and of course in the project, we include retail or shopping, et cetera. But you must take into account the fact that people today are looking for more immediate sensations and experiences and when the shopping center becomes more attractive. In order to achieve this, you have to give more pleasure to people, and this is a major objective to bring pleasure to people.

Because nobody lives without pressure. Brazil specifically, is a country in which our street, well in the past, you were able to have a stroll. And nowadays people go for a stroll shopping centers, because even -- because of security reasons and we don't want security to be a negative factor in Rio de Janeiro. We see more positive signs in terms of security and crime rates going down and more effort in terms of fight against crime. But we want to gain with the quality of our product and not because of that.

And we will be launching in Curitiba, it's, 16,000 meters of expansion. We are going to throw a party, We have stores and restaurants and 3000 in the medical center that is being very highly demanded and an additional 2,000 square meters. So we are seeking to diversify with new options. A parenthesis here, we were the pioneers in terms of placing large medical centers all over the world. When we did that 27 years ago in BarraShopping, we had that in Ribeirao Preto as well. And now we are doing the same in Curitiba, and with a very different experience, the highest demand that we have is for professionals in the health area, because when we place a medical center in a shopping mall, we create a way of heavy medical care together with pleasure because people go to the shopping mall for pleasure and people think it is better. It is less painful to go to a medical center in a shopping center. Because there is pleasure around it. And when you go to hospital, there is no pleasure around it.

So we try to reduce the resistance on the part of people. Those who go to shopping centers every day are usually people that have to go to a doctor's office, very often. And globally, well in the most recent Congress of the CIC, a lot was said about shopping malls having to have medical centers, mainly because of the aging of the population. But we have been doing this for a long time. So we are pioneers in Curitiba is a big surprise because this is a very good sign. We have a large area for that. Have I answered your question.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you very much. Yes.

Operator

Okay. The next question comes from Nicole with Bank of America. Nicole, Good morning.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning. Thank you for the call and congratulations on the results. I have two questions. Firstly, do you think you can tell us more about your initiatives to lower condominium costs. I noticed, it's going down over the years, I would like to know if there is further room to go down. And also what are the projects that you're considering down the road, in order to further reduce these costs.

Second question is about parking lots, I was surprised that the revenues of parking lots are growing. Car flow is surprisingly going up. Could you give us more color on this please. So what about this increase in flow, is it only in some shopping centers or comparing, for example, those that are at the center of a city downtown or in smaller shopping malls.

So what is behind this parking lot revenue increase or flow? Thank you.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Nicole, thank you for your questions. First answering about condominium costs, there is a number of initiatives and decisions that are made in order to lower condominium costs over time. They involve the use of systems that eventually lower personnel expenses and also unification of processes. And also some events like the photovoltaic plant by Dr. Peres mentioned before, which also lower condominium costs and renegotiation of several agreements.

We have a single goal in mind in order not to impair the quality of the condominium. At no time, do we challenge our teams or ourselves to lower condominium costs, if we have to impair our quality. So what about opportunities? Considering, there is a number of processes that can be further improved, no doubt, we are going to have an impact on cost. But you also have to think about expansions and the natural dilution of condominium cost over time. As to your question about parking lots.

We had a growth in our car flow, I don't remember top of mind for the year. But this quarter, the increase was 1.5% that's for cars only, which is very significant. And this has an impact directly in the parking lot with higher flow. But what we also noticed about the question, about the change in the mix, is that the time of stay of consumers in the mall is also increased. And it also brings a stronger impact on parking lot revenues.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you very much.

Operator

The next question is from Andre Mazini with Citibank.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Andrea, Good morning.

Q - Andre Mazini {BIO 20377100 <GO>}

Good morning Dr. Peres, Armando and the whole team. Thank you for taking my question. I have two questions, first question about Santa Ursula, with a stake acquisition up to 100%. The low price per square meter was low, about 3% and the cap was also good double digit. On the other hand, Santa Ursula is a shopping center that is coming -- is lagging behind. So now that you hold a 100% of the mall.

I know, you already managed it before. So can you do anything different if you check the release, you also mentioned Ribeirao. And the city is very well supplied for GLA Multiplan, so can you change the mix, if Santa Ursula is right in downtown, so what about the last mile or having more services compared to the portfolio average. Considering Ribeirao is so big. So people might also go to Ribeirao mall. So what can you do now that you hold a 100%.

And the second question is about one-off event that lowered revenue slightly in the fourth quarter for rent revenues. Do you expect to see an increase in the first quarter of 2020. Could you give us more color, please. Thank you.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Andrea. Good morning. Santa Ursula, Just a couple of numbers now. Sales increased 9.1% last year, increase in rent revenue 17.7% last year and an increase in car flow of 3.2% last year. Which is good. These numbers compared to any other mall is very good. Naturally Santa Ursula is a shopping center that still need some changes to the mix. It takes some adjustments in a city that increased a lot of GLA at the same time. And strong malls like ours, including Ribeirao shopping and everything we've done with expansions in recent years and now with the creation of the medical center. So our partner, our partner there, sees an opportunity of holding 100% stake of the mall. Naturally, we have the plans of changing the mix over time.

Not only because we acquired, that's not the only driver, but also the right timing. You cannot do everything overnight. So we're happy to see the mall growing as it did. With regards to rents, so there was an impact on the fourth quarter. And at the end of the day, we had an impact on October, slightly less in December, and we expect to see a recovery now in January, owing to the change.

So this is more related to discount accounting. I'd just like to say that a 100%. So the decision making process is faster and we managed to change the mix better. And it is also a motivation to improve the mall, we can expedite the process and expedite improvements in the mall.

Q - Andre Mazini {BIO 20377100 <GO>}

Perfect. Great, thank you. Good morning.

Operator

The next question is from Marcelo Motta with JP Morgan.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Marcelo. Good morning.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. Two brief questions. First, could you make some comments about sales in January and early February? Just to give us a better understanding, if you have the same good pace that you had in 2019 or it is even improving? And what about retailers' appetite, we can see a wave of retailers raising capital, considering growth. And when you think about the number of malls that are expected to open, sometimes it doesn't match the expansion size. So what about this new formats, new stores, could we consider a positive impact along 2020? Thank you.

A - Armando d'Almeida Neto

Motta, with regards to sales, we can see growing sales. Dr. Peres mentioned before, speaking of 10% is totally different compared to the past. We can see sales growing above inflation rates. January, well, February, we cannot just consider that well. It depends on Carnival. So the comparison base, sometimes it is different. We have to consider the whole quarter. But our vision is very bullish and very positive, considering the growth in the rent area, as a leverage over time. So we never said we expect that it would be a great recovery because it never went really down. Our sales were always positive, a new record quarter-on-quarter since we went public, but we still see growth.

As for retailers' demand, your question is very good, actually. Because that's what we've been saying over time. We need more room, retail growth in the mall. When you think about the retail sales percentage, if you consider 10 years or 20 years back, all you see is growth over time. And once again, a comment that he said previously is that that people used to walk and now today, they don't walk on the street, they walk in the mall. And they also drive on the streets, even though people say that cars will eventually come to an end and self-driven car will come to stay.

It will take 10 years or 20 years to see this coming to Brazil. People still drive to the mall and urban transportation, public transportation is very bad quality. So people are forced to drive to get somewhere and if -- to come to a safe harbor, you need to be in the mall, you are not going to park your car on the street. So I come from the tram time. And the tram wherever it was progress would come along.

Sales were close to the tramway. And now with cars, we changed completely how we see trading shops. I've been in the shopping mall business for nearly half a century. I am one of the pioneering players. So we noticed from the very beginning with the first commercial centers that now consumers are cars, no longer pedestrian. I am not saying, we don't have a big flow of people, which will come with public transportation or apps like Uber or cars, et cetera. And a couple of cities, we already have a city surrounding our mall, particularly the older malls. They created big cities in the surrounding areas. So people can even walk to the mall. But naturally, we can still see in Brazil, when one retailer comes to Brazil. He pursues the main shopping mall chains to be there.

He is not going to go out on the street. Because whatever he finds is inadequate. So whatever there is rational, adequate and convenient space it has to be in the mall, the mall is an alternative. I would like you to understand that shopping centers are the retail industry. If you think, about Copacabana avenue, for instance, which took a century to exist. Sometimes, you build a mall, and there are so many stores as you find along the whole Copacabana avenue. So with the mall, you create a new avenue. A new avenue that gives you AC, comfort, leisure, entertainment, security and a number of other factors. And condominium costs in Brazil are really high because you feel unsafe outside.

When you have safer cities, this cost we will go down on the mall. So I would just like to share this information, because I see our industry as an essential industry to the population to our society and to the development of cities. Cities no longer have so many urban solutions. And if it weren't for the malls, if there were a strike one day, it will be chaos in the city. Where would people go? Where will cars park? But when we see that, despite competition, e-commerce apps, our flow continues to go up, I see that as a very positive sign, far more positive than 10 years ago, when flow increase was higher. But today, we suffer from e-commerce competition.

Every store has its website, its apps. So what is happening is that the shopping center is not only a big product showcase, but also a center where merchants perform most of their transactions.

Now I would like to highlight the importance of having big commerce avenues in the mall. There is a saying that shopping center is a copy of the major avenue of trade. And not only that, that is why we are investing in new areas. Canoas, for instance, back in 2017, it was not that obvious to expand at that time, but we did. And we are doing the same expanding in Jacarepagua. Many people ask why you are investing, if the country is doing so poorly. Precisely because we noticed the demand of room by tenants. Some things are not so visible. We also invested very heavily in areas that are close to our malls. And now obviously, with a drop in interest rates, the real estate market will grow a lot because the source of income in Brazil, well, we no longer have the juries.

Not juries, but that is a pun in Portuguese, people who pay interest rates. If you think about people who are consumers, who are going to buy with lower funding and loans. But I would like to say that the real estate market is the big bet, that is my personal view point. It is the big bet for the coming years because naturally, buying a flat paying at 10 years or 15 years at an interest rate of 5% or 6%, it will be permanently more affordable. And the payment installment will be very similar to the rent paid for the flat.

So I believe there is still many areas, 1 million square meters surrounding our shopping center, and this 1 million square meters will bring dividends to the Company. Since the Company has a real estate arm that is still very sustainable and strong.

Q - Marcelo Motta {BIO 16438725 <GO>}

Perfect, thank you very much.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Thank you, Marcelo.

Operator

The next question is from (inaudible) with Bradesco BBI.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Pedro, Good morning. Pedro, can you hear me.

Operator

Hello. Pedro, can you hear us.

Q - Unidentified Participant

Yes, I can hear you.

Operator

Please go ahead.

Q - Unidentified Participant

Good morning, everyone. Thank you for the call. Congratulations. I have two brief questions. First question about is Park Jacarepagua. Last quarter, you mentioned the sales were good, even exceeding 50%. So I would like to learn more about sales in the fourth quarter. If they continue with the same good pace and the expectations into constructions is completed.

The second question is about AOL [ph]. Now that you closed the year, we noticed that provision balance increased compared to 2018. So I would like to know, if you could give us more color, or the reasons why there was an increase in the balance, considering delinquency levels are healthy and flat?

A - Armando d'Almeida Neto

Pedro your connection was very poor. I hope I got your question. Firstly, Jacarepagua continues to follow with the rents. Today, we have saved 70% GLA, already negotiated. But there will be a gradual increase over the year, we have no hurry to rent. We want to rent well and with the best mix possible.

As for ALO, there was a slight increase, a reclassification in the accounts that generated this. And right now, owing to BH Shopping, we've an increase in the mall ALL. So we posted a small growth, but two one-off events. So reclassification and BH Shopping.

Q - Unidentified Participant

Clear. Thank you.

Operator

The next question is from Jorel with Morgan Stanley.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Jorel, Good morning.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning, everyone. Thank you for you time. I have two questions. The first question is revenue growth that we consider in the best malls, like Morumbi, BarraShopping. It was a lot better compared to the performance or other mid-tier malls like Jundiai. So could you give us more color about the difference in performance? Do you believe it has come to stay? The second question is more about M&A in general, we can see a trend of consolidation in mall Companies globally in the US, in Europe and the last offer was -- so I would like to know what you think about this global trend and if you believe this trend may come to the Brazilian mall market? Thank you.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Jorel, Jose Isaac Peres, now. BarraShopping, Morumbi, naturally these malls increased their sales positioning. And that is because we had adequate marketing efforts and also a renewal in the mix. And naturally, it brought attractiveness to the mall and also some renovations in-house, which provide more comfort to consumers. So the summation of these drivers brought to these malls that are very strong malls, improvement in sales.

On the other hand, you also had a question about M&A, right? I think, it will happen in Brazil, it will happen some time. I don't think, it won't happen. Because that is the trend. Companies want to be more productive, shareholders want to have more results. And whenever you have two companies together and the summation is greater than two naturally, there is always a reason for you to have a merger, a partnership, an M&A. So I think, it will eventually happen. For now, here we're sailing on our own. And we know, we are always very well, people come to us very often. And we have conversations with some partners. And it might, it could happen. I cannot tell you anything because we don't have anything concrete.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you.

Operator

So this concludes the question-and-answer session. Would like to clarify that any questions that remain unanswered, will be answered by the IR area later on. So now I'd like to come back to the last part of the meeting, turning the floor back to Mr. Jose Isaac Peres for the final remarks. Over to you, sir.

A - Jose Isaac Peres {BIO 15388489 <GO>}

Once again, I'd like to thank you all who are listening to us, investors, analysts, shareholders, journalists who follow-up our reports the Company is really delighted to meet you all, whenever we share the earnings and address some of the news that we're working on. The Company celebrates 45 years of existence. Now when we hope that the next decade is as prosperous, as the last 10 years when the Company tripled its size. So that is what I had to say to you, it is not easy to triple the size of the Company that is slightly bigger, but everything is possible. Thank you.

Operator

This concludes the fourth quarter 2019 Multiplan's earnings conference call. We thank you all for being with us. Have a good day.