FINAL

Q1 2020 Earnings Call

Company Participants

- Frederico da Cunha Villa, Chief Financial Officer and Investor Relations Director
- Ruy Kameyama, Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Jorel Guilloty, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Victor Tapia, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. You're welcome to BR Malls Teleconference for the First Quarter of 2020.

Today, we have here with us Mr. Ruy Kameyama, Frederico Villa and Derek Tang. We would like to inform you that this event is recorded and all participants will be in a listen-only mode. We're going to start our Q&A session after that when further instructions will be provided. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on beliefs and assumptions of BR Malls, and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry, and other factors could also cause results to differ from those expressed in such forward-looking statements.

We now turn over to Mr. Ruy Kameyama.

Ruy Kameyama {BIO 16672412 <GO>}

Well, thank you very much for participating in our first quarter 2020 earnings release call. And I hope that all your families are doing well. We're going to start with Slide number 2.

This quarter was a quarter that was unfortunately marked by COVID-19 [ph] and all of its results. In this slide, we share with you some of the details.

On May 1st, we had a specific conference to provide some further information to our shareholders about the measure that we're taking to remediate the effects of the COVID-19 pandemic. And we now have a summary. So the first phase in March, we tried to provide a quick response to mitigate the short-term results. And among them, we'd like to highlight the temporary closure of all of our business units with social distancing, we totally migrated to home office, and also we had a BRL300 million capture performed at the end of the March to make sure that the balance of the Company would be okay. And then in April, we tried to structure the needs of our stakeholders with different actions to guarantee that we will be able to support our stores and running capital. We had a 50% decrease in the March rental with a negotiation of contracts, a reduction of 100% of April's rent and May in the malls that remain closed with reductions of up to 60% in the condominium amount.

Measures were, of course, aimed at the well-being of our employees, the well-being of the store owners, and then at the same time, we started accelerating our initiatives. In April, we had the first reopenings of different malls -- were opened at the end of April, I'm sorry, like Gerando Falcoes. And then we knew that other malls would reopen, such as the one in Londrina and Curitiba, in Amazona, Vila Velha, and Cuiaba. We had the Company's first marketplace, where we announced a very wide partnership with BR Malls and B2W.

In the next slide, Slide number 3, you can see the dates for reopening of the stores, and we also have the annual percentage for the Company as a whole. We have 11 malls that have reopened, with 41% of our total amounts. As you can see here on the slide and all of the malls in the South region are already operating. And then we have malls in Mato Grosso, Mato Grosso do Sul, Sao Paulo, Espirito Santo among others.

In the next slide, Slide number 4, we have some information because a lot of questions have been asked, what has the sales evolution being in these stores that have reopened for a longer time? You can see the one in RS do Sul [ph] and the other in Campo Grande, who have been opened since April. I'd like to highlight that due to the restrictions established by our government authorities, these malls are working with reduced opening hours, which correspond currently to two-thirds of the malls' normal operating hours.

We can see that there has been a significant progression of the sales with an improvement of approximately 16% in Caxias do Sul. They opened with a 43% negative margin and that has improved. And in Campo Grande, they started at a lower level, they had a decrease of 65%. But on the other hand, the recovery was faster. After five weeks operating, this loss was decreased to 44%.

This gives us an idea of the progression of events we have been following week by week, and we believe and hope that the other malls that have already reopened and the ones that will open will present a similar trend as consumers go back to normality and get used to going near out, leaving their homes, and we naturally understand that the environment of the mall requires a lot of cautions to reduce risks.

In the next slide, you can see that we were able to put into practice a protocol for reopening. We have been fine-tuning and improving it. Some adaptations were made in May based on the learnings taken from this experience so that we can have more effective actions and being able to take better care of our consumers and our employees.

I'd like to share with you, and this is something that we are disseminating. You can see all of the details in a very, very didactic manner. We have safety protocols that are being adopted in all of our enterprises. We believe that sales will go back naturally to normal. We can see that after this reopening, we have progressions every week, and there are some characteristics that should be highlighted here.

Today, vehicle flow and sales are close to 50% in average compared to the pre-COVID level. We would also like to highlight the electronic and household appliances sector. We also have bad and best, and that's just natural because people are spending more time in home, and they have different needs now. In terms of the qualitative progression, we can see that habits have changed. So the flow tends to be well. At the same time, the time of stay in the mall has decreased. People spend less time walking around the halls. There's no entertainment. The food courts have not reopened nor has the movie theater. And so the time of stay has decreased, but at the same time, the activity is very good right now. It is wintertime, so the clothing sector has had an improved performance as well.

To comply with the protocols of our health specialists, we believe that in the next few weeks, the opening will be accelerated. And with that, we have an expectation that in July this year, within some weeks, all of our malls will have reopened to the public. We'll have protocols and very serious recommendations on prevention, hygiene to guarantee that everyone will be protected.

And then moving on to Slide number 6, we have the overall sales of our portfolio. You can see that there was a decrease of 10%, reaching over BRL3 million in the first quarter, and also the indicator per square meter had a decrease of 3.9%. And at the same time, when we compare the first two months, for us to realize what we were doing or how we were doing until January, and when we compare this period, the increase in sales was very significant, and sales per quarter million [ph] was greater than 106%. And so it was very positive. There was a decrease of 13% and 8.9% because of restrictions in March. And at the same time, when evaluating the accumulated amount for the first months of this year, we had an increase of 3.4% and 7.8%, respectively.

In Slide number 7, you can see the performance of other operational indicators. We had an increase of 10.7% in the rent per square meter when compared to the first quarter of 2019, with an increase of 8.2% in the NOI per square meter when compared quarter-over-quarter. They are associated to the strategies where the portfolios were strengthened. We had all the non-core actions and in the core assets in the last 12 months. Regarding the new occupancy rate of the mall, there was an increase of 0.5% in the first quarter of 2020. We reached 96.9%, which is the best occupation rate we've had in the last three years.

In Slide 8, we can see some operational indicators that reflect the policies adopted during the pandemic. We can see there was an increase in our net revenues when compared to the first quarter of 2019, and it reached to 4.9%. At the same time, we had 7.8% of payments of -- late payments. And this is more or less aligned with the amounts recorded for the first quarter in previous years.

We understand that this relative stability of the indicators results not only from the business policy that was adopted in March when we had the first month of COVID, but also because our portfolio has been improving, and this is something that has been done in the last three years. We have been discussing this, there has -- there have been a lot of activities done in this regard to improve our logistics. We have brands and modern concepts, both in sales, but they also have an impact on the debt amount now. We have a reduction of 53% in CCBs for the quarter, even with the update we had in the provisions. We were conservative because of the scenario already anticipated by COVID-19.

In Slide number 9, we have some financial indicators. In this quarter, as a result of the 30% reduction of rentals in March, we had a growth of 1.9% in our net revenue. Excluding the malls that were sold compared to the first quarter of last year, we totaled BRL296 million. And you can see that we had a total of BRL258 million for NOI.

We also had increase of capital. Our adjusted EBITDA reached BRL206 million, which represents a 4.8% decrease when compared to last year. Our AFFO had a 21.9% decrease. It reached BRL176 million. And even though we had an improvement, this reduction was due to taxes deferred that had a positive impact last year and the first quarter, there was a negative impact based on the contract readjustments we had in this period after March. We had increases reaching BRL0.16 per share.

Now, in Slide 10, you can see our capital structure. Since 2017, we have worked hard to try to strengthen the balance sheet so that we were prepared for any scenario in case the economy had a downturn. And even so, we had two captures in March and April, so that we could provide a little bit more safety to our employees. The first one was in March in the amount of BRL300 million, and then on April 17, we issued bank credit notes in the order of BRL400 million.

Regarding 2020, we had three important events. We had Villa-Lobos but -- with BRL20 million, and then an additional purchase in the amount of BRL212 million. After these events, we consolidated estimated cash of approximately BRL1.3 billion for June 2020 with a growth of about 34% when compared to the last quarter. We have had very efficient tax levels and are confident about our CCBs going up.

In Slide number 11, you can see in details the strategies to strengthen our portfolio. In this quarter, we obtained additional shares in Villa-Lobos and Shopping Piracicaba, which are very important ones in the state of Sao Paulo and reinforce our commitment to that with more capital. These acquisitions will allow us to have more dominating assets, which is related to our strategy. And that also enable us to have a better performance for the long term. In the meantime, we totally sold our participation in Via Brasil mall in Rio, as you know, this asset was already for sale.

In Slide 12, you can see this progression in our strategy to better define our portfolio. We went from 39 malls with (inaudible) which represented 81% on a yearly basis. And today, our portfolio is more qualifying, more homogeneous with 29 dominating malls. And so you can see here that this represents 93% of our NOI.

In the next slide, Slide number 13, you can see some performance indicators of these assets. You can see there was a significant improvement in the operational indicators. The amount per square meter grew 6.7%, [ph] and debt -- and you can -- we have a comparison of 2018 and 2019.

In Slide 14, we present our regional diversity. In 12 states we have high-quality assets with very good performance in high sales level per square meter. You can see the amounts per square meter. And during these economic cycles, and also as a result of the COVID pandemic, we have a performance and a good demonstration of the resiliency our stores have. And we have assets that are much better prepared to face the consequences of COVID-19, both in terms of the assets and also, performance of our store owners. We believe that with a more dominating portfolio and after having done our homework in selling some assets of the Company with poor performance, we will be able to have a faster recovery in the upcoming months.

In the next slide, you can see a little bit about what we're doing and how retailers evolving the weeks after COVID. You can see that from the very beginning of the pandemic, many store owners, which did not have the omni-channel model as a priority, developed an online model integrated to an offline model. And here in this slide, you can see the news in the media and how it has become more common to use it as a strategy for all the bigger retailers. You can see the strategies that have been adopted in the last three years.

A highlight here would be to the (inaudible) model, which is increasingly more important for store owners, another model that evolves and has provided very good results to the store owners, leading to very good results. The traditional e-commerce, by means of a distribution center, depends on sites and a complex distribution mesh. And it may take a while or a relatively long time to restart. With that, the malls have become distribution centers with more comfort and this experience has been praised by consumers, reinforcing the belief in what we have been discussing with you that the mall can work as a distribution hub or primary, secondary hub.

In Slide 16, you can see the main initiatives which expand our sales channels, take account strategies that use the database to improve sales, also with the optimization of the space in the mall. With the current scenario, we anticipated our rollout of different malls in the Company, and today, nine malls have been integrated. And in June, we will inaugurate units in Belo Horizonte and Curitiba. And in the next few months, we will have more rollouts. We have eight external marketplaces, and our expectation is to reach 15 marketplaces by the end of the year.

I'd like to highlight that in May last year, the new malls reached about 100,000 orders, which is a very high amount of delivery done directly by the malls. Also if you take into account April and May, compared to before, it was 160 -- 192%. Nine store owners signed contracts to start working with our platform. On June 3, we signed a partnership with B2W to increase our tenants' channels to accelerate the models, and this will enable us to sell our products to B2W. It will also enable the stores to be integrated. This is something that will enable us to have -- to provide important services.

We're putting together two very strong ecosystems, the digital one with millions of users, and at the same time, we have an ecosystem with thousands of store owners so that we can meet the demands of our consumers efficiently and at the same time, with a very good experience. The same trend is to expand the new sales channel included the inauguration of the first marketplace at the Tijuca Mall, where the consumers have access to the stores using the mall app. This will be a new sales channel with consumers that are already loyal and have an emotional relationship with them all. And it's also part of our strategy to expand new marketplaces, new areas, and the rollout will be done on a step-by-step approach, and by July, our expectation is that seven other malls will be integrated in this system then in April we launched

All right. We -- the drive-thru, we now have 24 participating malls joining this initiative. And you can see the capacity of transformation, turning this into a priority and we have had 15,000 orders since its opening.

In this last slide, we provide you a summary of the activities that we're going to focus on in the post-COVID environment. The first one is to resume our operations. We want to do everything as safe as possible as we already commented with you. And at the same time, it will be essential for us to support our store owners with a good long-term relationship with all of the brands, all of the main operators we know that it will be very important to find solutions with all of them. A second aspect is to define the strategies that were adopted, and more than ever, it will show us that we have to strengthen the resiliency of the Company. We now have a qualified portfolio with a strong balance sheet, which gives us an opportunity to make the best of this post-COVID scenario.

The third aspect is that we believe that in the long term, the fundamentals remain unchanged. We have malls that meet the needs of different sectors of the economy. The malls remain the best option for retail. And also, even with all of the transformations we've had, we see how important they are, the large retailers and at the same time, consumers want to have assets that have an excellent performance, but also provide new solutions. And that's why we have developed more digital solutions because we can see the penetration of e-commerce, on one hand, can represent a migration outside the malls, but at the same time, we can go -- we can have complementation to our usual businesses. The trend is for retailers accelerate their use of digital solutions.

In terms of culture, I think that we will see a changing environment in the next few months and the next years. And we believe that the importance of the team will be very important to guarantee the evolution of the company, of the business model with an adaptation and creation of new solutions. We have placed a lot of emphasis on this. We want to remain a company with high performance, but want to be able to adapt and innovate and more than ever, we see how important everything we've done so far is so relevant.

This is what I wanted to share with you. And we're now going to open to eventual questions. Thank you very much.

Questions And Answers

Operator

We're now going to start the Q&A session. (Operator Instructions) Our first question is from Victor Tapia from Bradesco.

Q - Victor Tapia {BIO 20566083 <GO>}

Good afternoon, everyone. The first thing I wanted to approach here with you about new contracts. You signed some new contracts. I wanted to know how it worked while the malls were closed. Also, could you tell us what happened in April and May in this regard, and what are the business conditions of these new contracts? Do you see any changes in terms of the percent rent and fixed rent? Have there been any changes? Also, are there any special reasons, you had new contracts, but what about the renewals? They went down, and I wanted to know why? I want to know whether there was any special reason for that.

And the second aspect, if I'm not mistaken, you have the payment, which should take place now in the second quarter with approximately BRL200 million. You're planning to make payments, I want to know whether these payments are planned and whether they require any guarantee, and if they are already consolidated in the results? I just wanted to confirm that. Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Good afternoon, Victor. Thank you for your questions. Regarding the new contract, we really had business activities, we were doing very well in January and February with the best occupation rates we've had since 2015. This indicates a lot of trust in our tenants. However, this -- the temporary closure started, this was all frozen, everybody went into a wait mode. And what you could see in the release for the first quarter indicates what happened in the first couple of months and then March. After that, it was all residual, in fact.

But naturally, in the last weeks, with the malls already closed, we had a significant decrease of new contracts. The good news in this regard is that, in the case, for example, Iguatemi Caxias and Campo Grande, we saw -- we noticed a very small negative variation. And so the occupation rate remains high. The minds of our tenants, so they probably think that because the long-term fundaments haven't changed, they want to reopen and understand when the recovery is going to be so that they can adapt their businesses. And new contracts are also in the wait mode. We have to take demand into account. And we have a lot of sales in the retail.

We think there will be a conversion. And some store owners will face difficulties moving on with their businesses. But others will see it as an opportunity to expand their businesses.

There will be a period when everybody will try to understand what's going on and then retail will adapt. About the business conditions, it's not our plan to change them. There was a question, whether the model has changed? No. We're not planning to change anything. This is a model that has been consolidated, and it works well for both parties. In terms of recommendations, we have nothing specific.

There are some difficulties to define parameters. We have the reviews, but we hope to have a better environment so that we can discuss renegotiations. Regarding the payment, you're right, we have payment of BRL200 million in the second quarter -- BRL210 million, actually. And there's no guarantee because we already had the revenue and it's our duty to pay.

Q - Victor Tapia {BIO 20566083 <GO>}

Could you give us a follow-up to the first question? You mentioned Iguatemi and Campo Grande that have reopened. You can see an impact of about 1% because of the economic downturn. Is this true for the rest of the portfolio in terms of impact and vacancy?

A - Ruy Kameyama {BIO 16672412 <GO>}

Well, Victor, we got this 1% in Campo Grande mall then the other in Caxias do Sul. But they have been opened longer so we don't really know whether the thing is going to be seen in the other malls. But we think that it will vary from one region to the other. A lot of people had more drastic assumptions, but it will depend a lot on the region and the perspective of the store owners. But as they see that the recovery rate is perhaps not as slow as they thought originally, and you can see that by the progression of things in the last weeks, perhaps there should be planning phase, keeping in mind that we will have some -- few difficult months and then things will improve.

And this is what we expect to see. But we will have to wait a little bit to see what happens in the other malls to be able to determine whether there will be an increase of the portfolio. We don't really have any concrete estimate for that.

Q - Victor Tapia {BIO 20566083 <GO>}

Well, it's very clear. Thank you very much.

Operator

Our next question is from Nicole Inui from Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Good afternoon. Thank you for the call. And thank you for all of the details on sales of the shopping center have reopened that helps a lot. I wanted to explore a little bit this vacancy issue. I understand that it's too early. But most of you are talking a lot about this reopening. I wanted to better understand, have you mapped any of the stores and their percentage rates? Do you have an idea of how many stores are at risk of having to close? Or are you worried about the stores closing?

The other question is about media strategy. Can you talk to us a little bit about the contracts, what they look like? And what should be expected? Also, I want to know what you're going to do once everything reopened, what the contract with the media is going to be?

A - Ruy Kameyama {BIO 16672412 <GO>}

Well, Nicole, and thank you for your questions. Regarding vacancy, as you commented, it's a bit difficult to estimate. But what do we see store owners as a whole, our concern we see on one hand, an important part of store owners for the largest stores that have or that are expecting to receive more operating capital, and we also have to take into account their debt levels. And yesterday, we had reports of balance sheets. And then at the same time, we can see that individual store owners have different results, but we can see that they have some resilience. They are committed to their business. They have their sales history, and they are really committed to keeping their operations running, not only in terms of the rentals but in terms of credit, where we try to avoid credit risk. But some lines have been provided and we understand that they will have access as well.

It's difficult to know, really. For us, Campo Grande and Caxias do Sul are cities where we have some large stores, but most of them are franchises. And the sales are very interesting. We see some cities in the mountain region in the South and other regions, but it will -- we believe that it will depend a lot more on the financial moment, what their situation was before so that they will know whether they'll be able to survive this difficult moment.

All of the malls in Brazil have a long-term vision, and they understand that this is a changing at moment. And when we compare this to other countries in the world, very few countries have given such an important step to guarantee store owners. And this is very important for us to generate liquidity and also working capital. We've been talking to our retailers. They all know that the trend is to preserve the largest number of stores and get out of this crisis as soon as possible. We can see this everywhere. There has been a collective effort, which will be very helpful.

In terms of the media, these contracts are short-term contracts. There is some seasonality involved. But in practice, we have short-term measures and revenues. But because there has been no circulation, these revenues basically zero right now, and it will be resumed when the operations are resumed.

Q - Nicole Inui {BIO 17757166 <GO>}

Well, thank you very much. It was very clear.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Nicole.

Operator

Next question from Alex Ferraz from Itau BBA.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good afternoon, Ruy. Thank you for your presentation. I have two questions. The first one is regarding the opening. Based on this slow decrease, how do you see the policy to -- the collection policies, how are you working to breakeven? Are you going to have a broader discount policy in the first month of reopening, for example? Or are you going to treat it on a case-by-case basis?

And the second question is regarding the provision criteria. In the beginning, in fact, that you changed a little bit the provision criteria, and you have provision receivables. But I want to understand more specifically about the rentals for March which are a little bit more relevant. So these amounts that will be paid for, I mean, should -- shouldn't you have a higher provision? Or is it too early to say? Or you're going to change these rentals in a different way?

A - Ruy Kameyama {BIO 16672412 <GO>}

Right, Alex, thank you for your question. Regarding the reopening, we adopted a policy for March. It was 80%, and it more or less had to do with the second quarter. In April and May, they were closed, and those that were closed were exempt from rent. We're now adopting a partial charging or collection system. We know that things have changed. We do not have a one-size-fits-all policy. We have some store owners that need more help. I will give you an example.

When we reopened our laser profiling activities, really improved, we adopted a policy with different segments according to their specificities. But there will be an average discount, keeping in mind that this partial opening system does not enable them to go back to the same levels they had before. And this is the support that we're trying to provide so that our tenants will be able to go across this difficult time.

Regarding the provision criteria for bad debt, [ph] that is reviewed every quarter. When we have more relevant changes, we adjust. We now have a more conservative policy. But when we take March into account, and just to remind you, half of them were exempted from -- for the first quarter. And the second one, we gave them some time and we understand that this criteria already reflect their business models, and we need to make sure that we have the correct provisioning system.

I'd like to remind you that whenever we talk about the time when the stores were closed and they were not charged, we do not have any receivable accounts because we didn't charge them, and that should be taken into account in the future.

Q - Alex Ferraz {BIO 19294308 <GO>}

Perfect, Ruy. It's clear. Thank you very much.

Operator

Next question from Andre Mazini, Citibank.

Q - Andre Mazini {BIO 20377100 <GO>}

Hello, Ruy, good afternoon, and thank you for your call. The first question is about NPR. [ph] We see that there is a sales option. You also commented that there is a minimum and a maximum. It was BRL26.3 million. But I wanted to understand what the maximum amount is and whenever you use it, what is the percentage in delivery? Could you tell us how many of your malls you have today, and how much it would increase your delivery activities?

A - Ruy Kameyama {BIO 16672412 <GO>}

Hello, Andre Mazini, thank you for your question. We really have an agreement with the delivery center founder. We were part of the investment agreement, and we understand that according to that model, it is only natural that it has to create -- correct mechanism to attract, retain and have some liquidity to the founders. So that they can develop further, but at some point in time, they will need to have some liquidity window. And that's how we structured everything with them. And then we reported it in ITR and impact, as you've mentioned, it was BRL5 million, and that has to do with the agreement we had with those founders. And today, we have a percentage of about 46% -- 47%. Today, in delivery center, we have close to 40%. And then we get close to 45%.

So an objective answer would be what I just said. But we understand that the founders have been essential. They really helped us create an innovation solution of online and offline to generate relevance, putting different players together to (inaudible) among others. And it has been very important partnership. Things were created in the last years. And we have different options available -- different delivery options. We have a very good relationship. There is an agreement with the founders, which was reflected in ITR, and this is what we have regarding the agreement right now.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you very much. It was very clear. Another aspect of delivery, I remember that some players had an exclusive contract, and they can only deliver if they also have the physical part. So is it like that in your malls? Also, it makes sense to have only one player. It's probably easier to organize. It's better to have only one company doing that. But I want to know how you do this? Do you have any competition in the mall? Or would it be too complicated?

A - Ruy Kameyama {BIO 16672412 <GO>}

Well, this issue is something I cannot comment here. It has to do with their business policy and also be our mall policy. But this vision of having multiple players is something that has to be as efficient as possible. And the mall with the so-called one-stop to sell a model which in this case, we have a satellite store and we help them to use BR Mall tools so that they can integrate their stock in the delivery center and then they can publish things in the market itself.

We have marketplace one, two and three, and we already have an agreement with Mercado Livre. The trend is for us to have kicking marketplaces in the near future. So they will have a physical point of sales, and we showed you our metrics. But not only that, we will help publish that in eight or 15 marketplaces to generate sales. And we can solve those, people go there, get their products, deliver them at the hand of the consumers on the same day or perhaps even in two hours.

So why do you think that this is important because we see that if the store owners have to publish in different marketplaces, it ends up not happening. Also, if they have to deal with 10 logistic operators, it's a lot more complex. They also have their physical store. So we wanted to have a good solution to really help them out. Those -- to help those who are totally offline to go online, they have to have a digital marketplace, and we have e-commerce. So it's not something that has to do with having an exclusive contract. At the end of the day, we are doing it for the consumer and the store owner.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you, Ruy, that was very clear.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Andre.

Operator

Next question from Bruno Mendonca, Santander.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Hello, everyone, good afternoon. The question is about condominium debt. Do you have an idea of what's going on now that you're giving a discount in the rental? I also want to know what the condominium have -- payments have been like. I wanted to focus a little bit more on the satellite, you talked about the capital market. But I wanted to know, what have the stock replacement being? Did it have any access to credit, for example, credit from the government? Are things being done in a satisfactory manner? Is there an expectation from (inaudible) to have these small store owners?

These are the two questions I wanted to ask.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Bruno. I will start by answering the second question. This is something we disseminated, and I have Bruno's second question. So in terms of the stock replacement for the smaller businesses, we know that losing their invoice has a clear impact, and they need to have working capital to obtain stock or an inventory for their future sales. But the retail has been adapting. We are already talking to some retailers. They're checking their calendars so that they can replace their inventory with products and less working capital.

That is a concern, of course. But we understand this is something that is unavoidable, and it's different from an inventory. They are adapting themselves to be able to face the situation. In terms of credit lines, we have had difficult moments for those smaller retailers. The fact is that there are difficulties caused by certain events, and so they have very little.

And at the same time, we can see some initiatives in the past few weeks, such as economic or economy, [ph] and some others. We have an actual intention of helping from the government -- from the part of the government. We have had some discussions. We believe that there are different solutions that will provide us better conditions to move forward.

Frederico, if you wanted to talk about the condominium default?

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

Well, Bruno, good afternoon, and thank you for your question. Just to complement the answer about your second question, BR Malls has a -- through its class entity along with such economic (inaudible) we're trying to push this issue of credit to small businesses. We are doing our part trying to support these smaller businesses.

Regarding the default, we see higher amounts for March. And if we look at it for the quarter, the default rate of the condominium was close to zero. And then in terms of the default for the condominiums in March, it's close to 10%. So you can see a higher impact. And we have monitored April and May, and we believe that this is what it will look like. We are trying to reduce costs to be able to help small owners.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Thank you very much.

Operator

Next question from Marcelo Motta from J.P. Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good afternoon. So talking about condominium, just to understand what we're seeing with the malls opening with last -- for a shorter period of time, what would the correct metric be for us to take into account condominium cost generate? Basis for calculation, I don't know how it works, for example, decrease with air conditioning expenses and so on and so forth. And perhaps along the same lines, I'd like to think -- to know what you think about the different health protocols for the resumption of the activities? And how things would look like when we're back to normality or working with a full window -- time window?

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for your question. Regarding the new condominium levels with the malls working with a partial schedule, we have made a significant effort in the last few months, not only to provide further guarantee during the months when we had a total lockdown but also during the period of partial locked down. And it will probably go back to 60% of what it was.

When full-time operations are resumed, we will make a huge effort to support the shopkeepers, and we will try to reach 60% with the partial opening and then evolve to 80% when they're back to full-time operations. But we don't know what's going to happen. There is a lot of doubt. Public authorities must feel more comfortable. We see that with good eyes, they are much more organized, they have metrics available, more information on the availability of beds. And at the same time, this very strict protocol was developed along with ABRAS. ABRAS's protocol was validated last week by the (inaudible) That is one of the most rigorous protocols we have for the reopening of the economy and the airport. We're very confident about our operations and also about the decisions made by public authorities in this regard. We do not have a specific date established. As soon as we do, we will resume our full-time operations and we'll follow the market.

Q - Marcelo Motta {BIO 16438725 <GO>}

Do you think that retailers would like to go back to full-time operations? Or first should test how the market is going to evolve?

A - Ruy Kameyama {BIO 16672412 <GO>}

This is an excellent question, actually. We know that four hours a today is something difficult for them. They will operate and try to adapt. This is not easy. It's not optimal. We have to do what is possible. They will try to do it in four hours, but at the same time, it's difficult to resume full-time operations since food courts are not operating and other services are not available. We should at least have the food courts operating totally for that to happen. And then they will be more enthusiastic. But at the pace we see things going on in Caxias and Campo Grande, we think that it won't be long before these shopkeepers will find the best way to do this and the best way for them to expand their operation time. But it's difficult right now to give you an accurate information.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Marco.

Operator

Next question from Jorel Guilloty from Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Well, good afternoon, everyone. I have a question. It is a follow-up. You had a plan, one of them focused on the balance sheet, the other one on the assets, and then the other one on the shopkeepers. I wanted to talk a little bit about the shopkeepers. You wanted to exchange 25% of your tenants. Have you reached this goal? And in the pandemic caused by the COVID, one could say that e-commerce is accelerating a lot of this. [ph] Do you see a possibility to exchange store owners or? So have you reached the 25%? And do you see new opportunities to keep on changing their profile? This is the other question.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Jorel. Thank you for your questions. In 2017, in this new phase of the Company, we established some priorities. One of them was to operate with a much stronger balance sheet, we developed or we tried to strengthen the payment of bonuses, also work with lower leverage levels. We also restructured our debt with the lowest cost of debt we had in the Company. We also have the assets, you're right. We have our portfolio. We did our homework, strengthened our assets. And in terms of the shop owners, well, we have a more fragile portfolio. We suffered the consequences. There was a significant impact in terms of sales subsidy, [ph] and it needs to exchange.

And now we have already concluded this goal since the end of last year. The turnover has decreased a lot, and whatever we had was this residual, in terms of what we had to change. And we changed throughout 2018 and 2019. And so the turnover level was much higher in 2017, '18 and '19. And now we were following a trend towards reduction. Actually, three metrics that show the quality of our portfolio was a more adequate occupation, cost of sales -- higher sales per square meter and much lower default rates. We had the best values in the history of the Company earlier this year, or better performance per square meter, a much healthier or a much better financial health.

And looking into the future, I think that it will depend on the impact. We had strengthened our activities for best and for a lot of services. And we will now have to understand what the impact post-COVID is going to be. The good aspect is that we're used to doing it. The business team was very active or have been very active in the past few years. We have new concepts to generate scale. We've sold the malls that were not doing so well. And we now have better assets to work with. I think that we will have to have some level of exchange. This is only natural. But at the same time, because of the quality of the portfolio and experience we have accumulated, we will be able to make the required adjustments.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you.

Operator

There are no further questions. So I turn over to the speaker for his final considerations.

A - Ruy Kameyama {BIO 16672412 <GO>}

Well, I thank you all for participating in this call. It was a longer call, but I understand that the moment demanded better clarifications. Our IR team is available. I'm available to clarify any concern you may have. Thank you very much. Have a good afternoon.

Operator

Thank you. BR Malls conference is now closed. We thank you all for your participation and wish you a good afternoon.