

Q1 2017 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer and Investor Relations Officer
- Franco Carrion, Investor Relations Manager

Presentation

Operator

Good morning. Welcome, everyone, to Multiplan First Quarter 2017 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Hans Melchers, IR and Planning Director; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan's website at ir.multiplan.com.br.

We'd like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Multiplan's remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan's management 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 materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Franco, who will read a message in the name of Mr. Peres. Mr. Franco, you may begin the conference.

Franco Carrion {BIO 16449361 <GO>}

Good morning. To start, I like to give you a good news. Our tenant sales have consistently grown in 2017 with strong numbers. In January and February, we saw growth of approximately 4%; in March, 12%; and now in April, confirming our sentiment, our sales preview indicates a growth of 11%.

In the first quarter, sales in our malls grew 6.1%, led by BarraShopping, which grew 12% in the period, ParkShoppingBarigui at 12%, ParkShoppingCampoGrande at 14%. Our

occupancy rate remains high at 97.4%, and we did not lose occupancy in the quarter. We will now begin expansion works at the VillageMall in the areas that had already existed in the project blueprint, but were not yet implemented.

With this, we'll have an increase of about 15 stores. In the next year, yet another expansion that will allow us to significantly expand the mall. We have put a lot of emphasis in the service segment, which is increasingly demanded in our shopping centers.

In November of this year, we will be inaugurating an expansion at Patio Savassi. And in this year, we also have delivered our latest shopping center, our 20th mall or the 20th mall that we have built, ParkShoppingCanoas, integrated with the Getulio Vargas Park, which was completely remodeled by Multiplan. The mall will have a leasable area of 48,000 square meters and, like all of our most recent inaugurations, will be a majestic project that will have great impact in the region, which comprises a population of about 1,300,000 inhabitants.

The project will have an innovative architecture. It will be heavily anchored in entertainment and leisure. And we'll also have a Zaffari Supermarket, the first one inside a mall that was not belong to this -- to its own group.

I would like to point out that the Company successfully completed a private capital increase of BRL600 million in March this year, in which the stockholders fully subscribed, and what considered by the market had a very successful operation. As a result, our net debt was reduced from 3.04 to 2.39 times EBITDA at the end of March. We have several projects to start such as Jacarepagua and another important expansions in our malls, which we'll try to start some of them this year.

I want to highlight that the RibeiraoShopping Medical Center, which comprises 6,200 square meters with 31 clinics in a day-hospital is underway. We will inaugurate it in June, having received a warmer support from the local medical class. We are renowned pioneers in these projects, which are well-developed with great success and even greater satisfaction of our clients.

The first example that I can remember is BarraShopping Medical Center built around 23 years ago and now with four clinics, comprising an area of 11,000 square meters, where about 300 doctors work. These are services that complement the activity of the mall in times when people more and more care about quality of life, leisure, and their own health.

Our philosophy will not change. We continue to believe in Brazil, especially at this moment in which we see the first signs of prosperity and economic recovery, led by an excellent economic team and by a government that does not worry about its popularity, but is willing to implement the reforms necessary for the growth of this country and its political future.

At end of its term, I hope this government will be recognized for the good it has done to the country. Brazil's population has always had a firm tutelage from the government and

associated with the destructed bureaucracy was identified in the last 13 years. With the change in economic policy, we are now on track to fiscal adjustment, fall in inflation, a steady decline in interest rates and necessary reforms, such as social security and labor reforms.

And notwithstanding the institutional issues, we are seeing through the Lava Jato Operation will continue to applaud and to support the current government for the courage and confrontation of Brazil's difficult economic and political situation has allowed us now to see a light at end of the tunnel.

We believe that the interest rate could be reduced effectively, but not as artificially, to around 8%, and our forecast is for inflation to fall even below 4%, a historical figure, which brings us the strength to continue our strategy, whether focused on the construction and development of new projects or for eventual acquisitions, such as the ones we accomplished at the end of last year.

As always, I like to thank our shareholders, our employees, our tenants, and all those who trust and work for the growth of our malls as well as our Company. Let me now pass the floor to Armando d'Almeida, who will continue with the detailing of the first quarter results. Thank you.

Armando d'Almeida Neto

Thank you, Mr. Peres; thank you, Franco. Good morning, everyone. Just a few additional comments, so we can have more time for -- then for questions. In regards to the shopping center operation, with 6.1% tenant sales increase in the quarter, it was a good start for the year. It was the highest increase in the past eight quarters. Also important was the 5.6% same-area sales. The same-store sales growth of 3.2% was literally double than the first quarter of 2016.

Occupancy rate did not follow the seasonality effect and hit slightly higher than the fourth quarter 2016, a 97.4%. This was the first time in 10 years that the first quarter occupancy was above the previous fourth quarter.

Delinquency rate came down. The gross delinquency rate came from 4.5% last year to 3% now, while the net delinquency rate came from 3.6% to 2.7% in this first quarter of 2017. The one-off servicing revenue last year and the real estate for sale contract cancellations explained gross revenue increase of just 0.1%.

Rental revenue went up by 10.2%, hampered by the recent minority interest acquisitions. Same-store rent increase was of 8.7%. The same-store rent for the base ramp only was of 10%, showing a real growth when compared to the high 9.8% inflation adjustment effect.

Moving now to results. Just to comment on NOI, that was -- NOI growth was 9.5% as a consequence of the higher rental revenue and a 3.6% lower shopping center expenses. EBITDA came down 5.8% to BRL107.3 million, mainly due to the mark-to-market effects of the Phantom Stock Option compensation. Note that no Phantom Stock Option was vested

in this quarter, so this is so far a non-cash effect. Still -- compare -- just one second, sorry. Still on the Phantom Stock Option effect.

On top of that, net income was also impacted by the increase in the financial expenses and depreciation, both related to minority interest acquisition. Compared to the first quarter of 2016, net income was 22.5% lower to BRL54.3 million and FFO was down by 19.2% to BRL92.7 million. Both results would have grown, if excluded, the non-cash effect of the mark-to-market.

About the capital structure. Net debt-to-EBITDA was 2.39 times coming from 3.04 times, resulting mainly from the conclusion of the private capital increase, and partially offset by a new debt related to stake acquisition in one of our malls in South of the country, ParkShoppingBarigui.

We now have more exposure to the CDI-related debt, allowing to a faster benefit on the expected interest rate reduction. We have about 64%, 64.2% to be exactly, of the total gross debt related to the CDI rate.

And lastly on CapEx. We invested BRL174.6 million in this first quarter, the 92.4 million on the minorities acquisition and 75.2 million in the development of new areas. Along the year, we will deliver the magical expansions in RibeiraoShopping, an important increase to the services segment area in the mall. We will deliver also the full legal expansion in Patio Savassi with two new anchor stores, and our newer shopping center in Canoas, south of the country that, by the way, holds 80% of the gross leasable area when leased, holding [ph] 86,500 square meters of GLA, not counting newer expansions where we will start shortly and we will deliver it still in this year like VillageMall expansion mentioned by Mr. Peres.

That in total will add 60,000 square meters considering what we have announced with this new expansions that we will start shortly. So there are new expansions, not just in VillageMall, new projects that will be dedicated to start shortly the future growth. So this is for the quarter that the operational results create a very good momentum for future expansions.

I will stop here and transfer back to the operator to check that any questions that we might have.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Excuse me. I'll turn over to Mr. Armando d'Almeida Neto for final considerations.

A - Armando d'Almeida Neto

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Well, thank you. I will -- just essentially had so many questions in Portuguese call, I will share just a few of the questions or at least the main themes discussed. One was regarding the parking area and parking revenues. So questions about the parking revenue is a bit -- little became unchanged or slowly [ph] unchanged to last year of 1.4% lower. We were explaining that we saw a lighter traffic in the mall during the month of January and February, we saw growth in March and growth in April as well, not the first quarter, but it's showing that we see a reverse of the trend.

But also it's important to highlight the two other aspects. The first one is regarding the primary areas of some of our malls that we increased in terms of demographics. This is example of Barra da Tijuca in Rio de Janeiro. There is also an example of the mall -- one of our malls in Sao Paulo, MorumbiShopping, in which the primary area is that, people just walk through the mall, this increased a lot in the past years.

The second point is also this -- just a (inaudible) case where people can just -- in terms of transport, so not using their own cars, just using cabs and/or public transportation to get to the malls, that also being growing in Brazil, around the world and it's not different here.

So then the question that came right up, it was, if it's early to have a lower parking space relative to smaller parking spaces, and this is absolutely an opportunity for us, so we have more. If the case is too early to say, but part of the parking space could be evenly transforming into a mall expansion that is already half built. So these unexpected expansion opportunity if that confirms throughout the years, but it's too early to say. I mean, certainly the cities like Rio de Janeiro after the Olympic Games have helped us a lot in this regard.

Second -- the other question that arises if talking about Rio de Janeiro, it's actually an analyst asking about the performance of the malls in Rio de Janeiro has been so strong compared to the headlines on the state of Rio. And so, first explanation was in regard to the very different financial aspect on the city of Rio de Janeiro where we are (Technical Difficulty) financially speaking. We also mentioned about the investments we've been doing in terms of mix, most of the change in the mix, new operations that were added to our mall in Rio de Janeiro, BarraShopping and VillageMall that certainly have helped them to outperform even before (inaudible) and their performance, their growth was very expressive in this first quarter.

And lastly, many questions regarding future growth plans. So what else can we announce throughout the year that is mentioned about potential of 60,000 to 80,000 square meters of GLA in the short-run when we announced it. So, we are working diligently in many, many projects, not just in mall expansions, but also in Greenfields. Just working on the future growth of the Company as we see that we've been through these challenging days in Brazil with a very high occupancy rate. As I mentioned, the occupancy rate, in this first quarter, was higher than the occupancy rate in the last quarter last year, in the fourth quarter, so showing the demand for spacey quality properties like we have.

So, I will stop here. We remain available in our IR department for any questions or any explanations that might be required. Thank you very much for your attention and for your

time. Thank you.

Operator

Thank you. This concludes today's Multiplan's First Quarter 2017 Earnings Conference Call. Thank you very much for your participation, and have a good day.

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