FINAL

Bloomberg Transcript

Q2 2018 Earnings Call

Company Participants

- Armando d'Almeida Neto, EVP, Chief Financial Officer & IR Officer
- Eduardo Kaminitz Peres, Chief Opreating Officer

Other Participants

- Alex Ferraz, Analyst
- Gustavo Cambauva, Analyst
- Jorel Guilloty, Analyst
- Luis Stacchini, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst

Presentation

Operator

Good morning ladies and gentlemen, welcome to Multiplan's Conference Call about the Second Quarter Of 2018 Results. Today with us are Mr. Eduardo Peres, COO; Mr. Armando d'Almeida Neto, CFO and Investor Relations Officer; Mr. Hans Melchers, Planning and Investor Relations Director; and Mr. Franco Carrion, Investor Relations Manager.

We would like to inform you that the presentation for this call is available for download at ir.multiplan.com.br. Please note that participants will be in listen-only mode during the Company's presentation. At the end we will have a question-and-answer-session when further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that might be made during this call in relation to the Company's business outlook, operating and financial projections and targets, our believes 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, because they refer to future events and therefore they 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, thereby leading to the result that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Armando d'Almeida Neto, CFO and Investor Relations Officer, who will start the presentation. Mr. d'Almeida, You may proceed.

Armando d'Almeida Neto

Thank you, ladies and gentlemen. Good morning and we thank you very much for participating in our conference call to discuss our second quarter 2018 results. We will start with remarks about our performance and afterwards we will answer questions. At the end of the first quarter, we knew that this year's events calendar would bring about many challenges, especially in terms of our sales performance. I refer specifically to the second quarter in which, differently from last year, when the Easter holiday was in the first quarter, plus the additional distraction of the World Cup, plus the high comparison base with last. In 2017 tenant sales grew 8.7% and we posted the highest increase in same-store sales since 2014, it was 6.7%. Nevertheless, we could not foresee the truckers strike and its impact on the whole economy. We kept the tradition this quarter of delivering consistent growth in sales in all 45 quarters since the company went public in 2007 and completing 11 years to date or this year posting in the second quarter, a 2.2% sales increase. We highlight the sales performance of Patio Savassi Shopping Center in Belo Horizonte which benefited from the expansion carried out last year, (inaudible)[5-0:49] JundiaiShopping, ParkShoppingSaoCaetano and SantaUrsula Shopping Centers with higher than average portfolio growth.

More details about sales will be seen in the managerial report. As you can see we are happy with the sales results achieved, especially considering the high number of stores and areas changed in the quarter and which did not contribute to the sales results as they were being prepared for their openings. Same-store sales were a negative 0.8% and same area sales negative by 0.6% mainly impacted by the truckers strike -- in the first, and the high comparison base. In the first half of the year SSS and SAS were positive going up 1% and 0.9% respectively.

Shopping malls occupancy rate remained unaltered when compared to the first quarter of this year at 97.3% and it would have been 97.7% when excluded the areas delivered last year. Evidencing our success in continuing to attract investment, even in times of uncertainty. Likewise, the occupancy rate of Morumbi corporate office tower remained unchanged, 97.2%. The occupancy costs was also practically stable at 13% over sales.

Gross revenue went up 7.2% driven by the 4.7% increase in rent revenue, 6.1% in services and 6% in parking revenue. Revenue from sale of real-estate reached BRL4.2 million in the quarter. We believe that we have delivered strong growth mainly when we take into account the decrease in flow during the truckers strike. Rent revenue increased mainly driven by the contribution from the rental of new areas and the renegotiation of rents and merchandising and the highlight here is the ParkShoppingBarigui and same-store rent was 3.2%, delivering 2.7% in real growth, more than the effect of the IGP-DI adjustment which was 0.5% continuing the recovery of real growth, which was started in the second quarter of 2017 and the highest real growth delivered since 2014.

Now turning to expenses, those of shopping centers were amounted [ph] in spite of the 8% increase in GLA vis-a-vis last year. Headquarters expenses went up by 13.3%, mainly due to the new cost related to the establishment of the fiscal counsel, the higher expenses with our digital innovation strategy and also the collective working [ph] provision expenses with share-based compensation as they are mark-to-market had a reversal of BRL28.5 million in this quarter.

Now turning to our results. NOI went up 4.9% with a 45 basis point increase in the margin, reaching 89% in the quarter. EBITDA raised 21.2% with the 84% margin, a 910 basis point increase impacted by the reversal of the share-based compensation. FFO increased 35% with a sub-margin 70.7% benefiting from the reduction in financial expenses, the reversal of the share-based compensation provision, and also the interest rate and the announcement of interest on equity of BRL110 million. And lastly, net income went up 39.4%, reaching a BRL145.7 million in Q2 with a year-to-date BRL243.8 million in the half year.

Our indebtedness at the end of the quarter was 2.27 times the EBITDA and the average cost of the gross debt 7.66% per year. In this quarter, we also issued successfully straight debentures amounted to BRL300 million half yearly interest and payment of the principal at the end of six years. And with this our debt amortization flow became even more stable and with no concentration of maturities on any years or any need for rollout.

CapEx in the quarter was BRL68.1 million, driven mainly by the investment in the new Park Jacarepagua Shopping Center, including a new land that we acquired next door to the mall, plus revitalisations. And about multiplying [ph] our shares in spite of the almost 13% drop in one year, we had a daily traded value of 25.7% higher in this quarter. Last Friday, we held an extraordinary shareholders meeting and we approved the share split of 1 for 3 or 1 to 3 and since this last Monday the shares are being traded according to this split and with that, we expect to further improve the tradeability of our shares. In summary, we have not finished our challenges, we continue to invest and at the same time returning profit to our investors without changing our financial deleveraging strategy nor our future growth capacity, we add new areas, we grew sales and revenues and at the same time we improved our main operating margins.

I will stop here. But before concluding, I would like to thank our investors and analysts and journalists who are present for their confidence and attention. I also thank all our associates for their dedication and the endeavors made to deliver the results presented here.

Now I would like to turn the floor over to the operator to start the Q&A session.

Questions And Answers

Operator

Now, we will start the Q&A session. (Operator Instructions) The first question comes from Alex Ferraz from Itau BBA. Alex?

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Armando. Thank you for the presentation. I have two questions, the first one has to do with delinquency and if we look at gross and net delinquency, the increase in this quarter and of course there was an impact referring to the truckers' strike in May, a higher uncertainty of this scenario. So I would like to know when this will be going back to normal and mainly receivables that were -- were they paid in June, the ones that were due in May. And same-store sales, we saw that home and office items went up double digit. So what was the impact, what was the reason for this increase? Was it because of the World Cup or the comparison base was low?

A - Armando d'Almeida Neto

Alex, thank you for the questions. I would like to start by the last one, home and office. The World Cup, of course, there was an impact, but this year, there is another thing, which is a weak growth base in 2014, it dropped not only because of the last World Cup, but also because of the economic situation and we have been feeling more in the sense, and since last year, if I'm not mistaken, there has been a recovery with a positive growth. And in this quarter, specifically, this was the highlight and I would also -- to highlight, as you mentioned, the effect of the strike, two segment that really felt the pressure, services and food, clearly because of difficulty to arrive and to move and many think that could not really work or operator during these days.

And I'm going to enter a few questions. And I'm sure that I will be repeating this quite often. One factor is the comparison base. We had the World Cup and Easter, we knew this beforehand, and of course we didn't know about the truckers strike, but in comparison to the strong base of last year, the moment in which the Brazilian economy had and also in the second quarter the FGTS [ph] helping to boost the economy. So, this is the strong comparison base and this is a very important factor for this result.

Regarding delinquency, I do agree with you and certainly there was a delay, because of the strike, there was a drop in sales and it was a one-off situation. And because of that, we had slightly higher delinquency, but overall, and specifically in our case, we had some one-off effects, regarding the mix and the stores that we took back. And this created this situation, the short-term situation that has already been solved and part had already been recovered now in July. But this change in mix makes the shopping center much better prepared then with updated mix and much more demand from consumers, so this means opportunities, opportunities that we have been mentioning for a few years already because, when you have a weak economy, you do have some opportunities as well. So I hope, I have answered your two questions.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you very much Armando, very clear.

Operator

Luiz Mauricio Garcia from Bradesco.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good morning everyone. Thank you, Armando. I have two questions. You talked about the performance of the segments and maybe you could say a few words about the performance of shopping centers. We see that some shopping centers had lower performance as suffering more with the crisis. And generally [ph] Rio Grande do Sul and Minas Gerais on the other hand, when you consider these, the comparison base is weak, so maybe we will see a recovery in the near future, because of that. So, how do you see this dynamic? How do you see this great correlation? And from now on, what about the performance of these shopping centers? And the second one, you highlighted this year same store rent with a strong real growth and from now on there is a major challenge as well of this strong growth of the IGP-DI to 7.8% in the second quarter and pressure over the -- or pressure on the adjustment of contract. So, how do you see all that? Do you expect to implement this fully or something more gradual? So how do you see the high inflation as the IGP-DI was ahead of the other inflation indicators that was higher than the others?

A - Armando d'Almeida Neto

Luiz good morning and thank you for the questions. In summary, we would have to go shopping-by-shopping and the particular characteristics of each one of the shopping, I like to take the Rio de Janeiro situation, which is being affected by the economy of the state and the performance has been very positive, in spite of the economic situation of the state of Rio de Janeiro. What I see the folly, we would have to look at what happened in each one of the shopping centers in Rio in the BarraShopping, we saw a major change in mix, as I said before, and we have large areas now and that will allow us to better qualify so to say our project that increase our revenues because of that, and bring about synergies to the consumers. And this is one example that I gave of Rio de Janeiro and in this specific case of the store and it happens also in other shopping centers in other cities as well.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

You've talked about Vale dos Sinos and Rio Grande do Sul and they are the specifics, they have the same store chains and one example of the well, Canoas for instance, shopping mall selling well higher than our expectations and our sales planning the first quarter in spite of the economic situation of the state. Some things are a little bit obvious, I would like the backdrop to be better and to have tailwind, but not necessarily this is the only reason why the performance is impacted, the change in mix is important. And I said that in other conference call you cannot make an omelette without breaking the eggs, so you really have to break the eggs first in order to be able to have the omelette afterwards.

A - Eduardo Kaminitz Peres {BIO 15388495 <GO>}

This is Eduardo. It is important to have this mix change. In terms of the same-store rent, we do not see any difficulty in terms of transferring this quite the opposite, in moments of a higher IGP-DI we have been able to transfer this and right now we are transferring this with rate reduction and discount. It is small, but this is being done gradually and keeping delinquency rather under control, a slight increase in this quarter this is true, but we have already given the necessary explanation. It was mainly because of the strike and the change in mix and this higher IGP-DI will make this adjustment. There is a delay there, but it will increase over time. Will it be able to have a BRL2.7 growth?

Well, this is a challenge, I cannot answer that. Neither yes or no, because it will depend on the moment of the economy and the political and economic environment, that we have in place. If we have a higher inflation, but what I can say is that the sales are very positive and we are going to have real growth, but it's difficult to say or to have a macro analysis of the impact from now on. We are confident in our portfolio and the management of our portfolio always consistently improving it in order to face any situation, whatsoever in terms of occupancy rate and everything.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Thank you very much. And when you talk about change in mix, you have the case for instance of BarraShopping, Vale dos Sinos, you have a positive effect, not only because the performance was bad before or the comparison base was low, but certainly there will be synergy in other shopping centers as well, not only their Shopping Barra, for Vale dos Sinos or the whole chain.

A - Eduardo Kaminitz Peres {BIO 15388495 <GO>}

Going back to same-store sales, the change in mix is desirable when the tenant no longer attract or no longer perform the role that he is supposed to play.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Thank you very much.

Operator

The next question comes from Mr. Luis Stacchini from Credit Suisse.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning everyone and thank you for the presentation. I have two questions, one has to do with same-store sales, you said that the most impacted segment seems to be the segments related to a flow of people, restaurants and services sort of same-store sales. If we exclude these two segments what would be the situation and how would it compare with the first quarter of 2018 and what is your expectation regarding recovery? It makes sense to expect a recovery in the segments that suffered a little bit more in this quarter, so could you please tell us how you see the dynamics at the beginning of this month. It would be very interesting if you could do that.

And the second question I would like to ask has to do with drop in turnover in your portfolio. You had a slightly lower change in tenant or maintenance and are you expecting a better moment in order to capture more advantageous rental or key money or do you have a reduction in requests from tenants. So, why was it that you had this reduction in turnover?

A - Armando d'Almeida Neto

Luis, good morning and thank you. All the time, we try to understand and we explore in order to have a better performance and what we were able to identify was the effect of the World Cup and the holidays in March and instead of March and the truckers strike and comparing this to last year. So with no growth this year we would have doubled our sales growth with same-store sales that was slightly negative we would have a positive situation in same store sales only for the effect of analysis. If we have know the effect of the World Cup, so keeping the same sales of last year with zero growth, which is not the case because we haven't seen growth too.

When you look specifically at the World Cup and the times and the schedule of the games this really hindered sales productivity and growth of sales specifically during the opening game which was on June, 17th. There was a huge decrease on this day, vis-a-vis last year, so everybody showed less, even food, food court and gourmet, they thought they would be selling more for delivery for instance for home delivery, but this did not happen. So we know that in the third quarter we have a comparison base that was even higher last year. So we do have this challenge ahead of us. And together with the uncertainties regarding the elections, but we trust there will be a gradual recovery, such as we have been saying to you in the last couple of years and this is what we have been seeing happening.

When you talk about the turnover, the turnover is another internal discussion here. It was slightly lower than the last ones and the comparisons with last year, but much higher when you compare with five, six years ago, five, six years ago, maybe seven years ago, we talked about 2%, 3% turnover and now we talk about 5%, 6%, very much similar to what we see in other countries and other continents as well. And turnover is low in Brazil, the difficulty of setting up of tenants et cetera.

And I go back to another point, the point of opportunity that was already mentioned here. Well, in fact the challenge becomes up an opportunity, if we have the same stores that we had 20 years ago, what would be an attraction? You have to go ahead, you have to surprise the consumers positively. So we are dedicated to that. We have to look ahead and understand and be able to execute. So, this brings about the opportunity to change our mix. I believe that during this last quarter there were some distractions like many people traveling and going out on vacation plus what has already been mentioned. So the response was a little bit slower, so we expect to resume this.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you very much.

Operator

Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions. Could you please talk about G&A. You mentioned a few things that were not recurrent in the release. So could we expect a level of travel point something of the revenue? And could you tell us about your outlook for the pace of contraction? Is it a little bit early to say anything, but could you tell us about the pipeline of your construction of shopping centers?

A - Armando d'Almeida Neto

Marcelo, good morning. G&A, we must understand that we are investing in an innovation, digital innovation, so this is a major challenge. This is not a retail company, this is a property company, so it's very difficult to create that. And this is an area of innovation, which means that we'll continue to seek ways to bring facilities and better surfaces to consumer. So, this explains it is a recurrent one, as well as the fiscal council that was created during the extraordinary shareholders meeting. And so we should expect an impact over the year and while we -- with the duration of the council we will have this impact. And I'm not going to talk about any percentages over the net revenue, I'm not going to mention any figure, but they are recurrent. We see no problem regarding demand in shopping centers. This is a matter of strategy, it has to do with looking or expecting, awaiting for a better moment, because this is the reason why we just wait for a better moment.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you.

Operator

Gustavo Cambauva from BTG Pactual. Gustavo?

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning, everyone. I have two questions. One along the same lines of the digital transformations that you mentioned or digital innovation. I understand a lot of things are still being developed, but also you had the acquisition of OLED at the beginning of the year. So, what are you considering as a digital platform or what kind of initiative is being considered in the Company or by the Company? Is there any disclosure that you can give us regarding the digital initiatives that would be very interesting.

And my second question has to do with residential. Development was worse in the last few quarters and there was a good recovery in this quarter, have you carried out any promotions or stronger marketing or do you see already an improvement in the segment overall? Thank you.

A - Armando d'Almeida Neto

Gustavo good morning. I don't really understand your question about the digital platform.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Well, I'm going to reformulate my question, what kind of initiative are you developing? You have a partnership with Prolab [ph] and you have a higher investment in G&A. Because of that, so what could we expect in terms of marketplace or what kind of initiatives are you considering in the digital area? Something new that you might have in your pipeline?

A - Armando d'Almeida Neto

Well, I would love to say a lot of things that we cannot say anything because of competition, but I have already shared this with you quite a few times. We intend to create a platform, web based or an app that might allow us to bring the shopping center to the consumers homes for 24 hours, so that they can do their research and they can buy with home delivery and for those who do not live next door to a shopping center or in the same city, having the convenience of delivery.

But as I said, this is more in the sense of materializing what we already have, we have already delivered this, but helping our consumers with many apps that were created. So you to place an order in the food court or pay for parking via the app and there are many other initiatives that we're working on and I would like to add to something that Eduardo said recently. Many of these initiatives all together with the previous question regarding expenses, they are recurrent because this is the biggest area today, but many of these initiatives also aim at reducing cost ultimately, be it with higher results and what we have of course is an investment that is not an investment as CapEx. It is an investment mainly in relation to the cost of payroll and everything that we must have in order to take this ahead. And we trust that we will be able to return this, the many initiatives we put in place and later on we will be giving you more transparency.

Regarding the sale of real-estate, there was really a one-off situation, mainly in Rio Grande do Sul and Ribeirao, Rio Grande do Sul and mainly residential. I do not see a recovery. I think the issue of termination created a lot of insecurity and for the industry this is not good. It should be more clear, you can only price and launch new units, but you have more transparency. This is improving gradually and mainly you have some situations, isolated situations in one city or another. But we have been saying this quite often or the uncertainty brought about by the contract termination situation, we could do more and have -- but we have a more conservative stand for the short run because of that.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you.

Operator

(Operator Instructions) Jorel from Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

I have two questions. The first one, could you update the performance of the tenants for the month? And do you have the supply chain of tenants totally recovered after the strike? And my second question is about the same-store rent and same area rent, we still see a difference between the two metrics. So what is causing this difference between same area rent and same-store rent? And do you believe that there would be a convergence between these figures, because the turnover is decreasing significantly? These are my two questions.

A - Armando d'Almeida Neto

Good morning Jorel, thank you for the question. So sales in July and supply chain. We believe that the impact of the strike is already asked and in relation to July, this is not an easy month, because of the comparison base, the sales in July last year grew 9.3%. So it's not easy, vis-a-vis this comparison base and even more so with the World Cup and how passionate we are for Soccer. And also because of lots of people traveling show the results of July up to the first two weeks or not spectacular bad as expected.

In relation to same-store rent and same area rent, there is a different view in sales. When you talk about rent. Rent, when you rent a new stores, when you have a new contract, you have a contract that will be in force for x many years, instead of having the step up the concept of step up and when you have a new stores, store. This is discounted because this is when the person is paying the key money and making investments in inventory and people. So when you compare the same-store rent with the same area rent. When you compare the same store rent and same area rent, you make a comparison. That is not really valid because for commercial relationship we usually charge a lower rent at the beginning, because of the expenses that the tenant is having. He has zero sales. He will start from scratch, from zero. This is only natural.

And two years ago, two, three years ago, there was a more bearish view because the rent that was in the same area became the same-store rent, and this evidence is what I'm explaining to you, so you cannot look at the same area rent the way you look at sales, same area sales. This is totally different because you have a better operator or not. And you can see the impact right away and this is different because of the contract, which is different.

And when you think about the IGP-DI, which was 0.5%. This same area rent was 1.8% or 1.3% growth, real growth and 3.2% with 2.7% real on the other side too. So same-store rent and same area rent cannot be compared the same way you compare with sales, because this is not going to bring a clear result to you about how they are performing.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Yeah, sometimes you give discounts to tenants, because they making investments, was there another point, well you talked, asked about the turnover?

A - Armando d'Almeida Neto

I answered this question a while ago. This was not a big drop. I cannot -- I have to look at the history, I have to look how it was and the evolution. I look at the turnover regarding the economic situation at the moment, I have no doubt whatsoever that if we had 3% to 4% in the country, and strong growth in sales. The turnover would be much lower and our difficulty would be to find areas in order to accommodate or to fit new tenants. So turnover is an opportunity to revitalize shopping centers and the shopping centers are different among each other and we see this as an opportunity and the reduction of turnover was small, really when you compare to the historical levels and very much driven by distractions in vacations. So the response is slower.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you.

Operator

(Operator Instructions) Now we close the Q&A session and we would like to give the floor back to Mr. Armando d'Almeida Neto for his closing remarks. Mr. d'Almeida?

A - Armando d'Almeida Neto

I'm going to give the microphone to Eduardo.

A - Eduardo Kaminitz Peres {BIO 15388495 <GO>}

I would like to give you a bullish view of the operations area. I believe that the worst is over, we have already turned the page on that and we have been working with aggressive target and very feasible objectives and this will have an impact on the whole company. And the changes in the proximity with the elections bring about a different perspective for the economy and we are very bullish and we think this is going to happen and we believe that we will close the year with a better situation than the one that we have today. Well, this year we had to face many challenges, the challenges were extreme and we were able to grow in rent and result in revenues and we were able to grow in spite of the headwind and this shows our dedication, our focus to bring the Company with more efficiency, more results and this is the commitment that we have with our investors. So I would like to thank you very much. The call is short, I know, but our Investor Relations department is available to you at all times if you so have questions or if you have any doubts that have not been clarified during the call.

Once again, thank you very much for your attention and for the trust placed on the Company. Have a good afternoon.

Operator

Multiplan's conference call about the second quarter of 2018 result is closed. We thank you very much for participating and wish you all a very good day.