Y 2021 Earnings Call

Company Participants

- Cristina Anne Betts, Chief Executive Officer
- Guido Barbosa de Oliveira, Investor Relations Director
- Unidentified Speaker

Other Participants

- Alex Ferraz, Analyst
- Analyst
- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Fanny Oreng, Analyst
- Igor Rezende, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone and thank you for holding. Welcome to the Iguatemi SA Fourth Quarter '21 Results Conference Call. With us here today, we have Ms. Cristina Betts, the company's CEO; and Mr. Guido Oliveira, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. Ensuing this, there will be a question-and-answer session for participants at which time further instructions will be given. This event is being broadcast simultaneously via webcast and may be accessed through the address www.ri.iguatemi.com.br where the slide presentation is also available for download. Participants may view the slides at their own convenience.

Please bear in mind that the forward-looking statements made herein are based on the beliefs and assumptions of Iguatemi management and on information currently available to the company. They involve risks, uncertainties, and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Iguatemi and cause results to differ materially from those expressed in such forward-looking statements.

We will now turn the floor over to Ms. Cristina Betts, who will begin the presentation, you may proceed, ma'am.

Cristina Anne Betts {BIO 16203383 <GO>}

Good morning to all of you and welcome to the fourth quarter 2021 conference call. We will begin speaking about our results something different from what we saw at the beginning of last year. The scenario is much more optimistic, perhaps because of the control of the pandemic with the vaccination rate in the population and resumption among consumers. The fourth quarter 2021 was marked by excellent results, a considerable improvement vis-a-vis 2019, an increase in the rental revenues, in leases and this is something that we have been discussing throughout the semester. Excellent performance in the malls that increased our results significantly. We had a record sales, something historic in our history in November and December. We have returned to the levels of 2019. This positive trends and indicators for the fourth quarter continues this year and we will refer to this in the presentation despite other things happening during the year.

Now to speak about our performance. What has caused us enthusiasm in the last quarter of '21 is that we had an across the board improvement. All categories had an expressive enhancement in sales and almost all categories are presently positive vis-a-vis to '19. At the beginning of the pandemic, we spoke about the resiliency of international luxury brands and jewelry, but presently throughout the entire shopping mall we see that all categories are performing very well.

We tend to say at the company that sales is a way of curing problems and this has allowed us to have an important resumption in the products available at our malls. We have 86 new contracts this quarter, which is an important step towards occupancy and December was a six-month where we had a closure of our average vacancy rate that has been improving month after month and we continue with this trend throughout 2022.

The fourth quarter was also very important, as you are aware, we concluded the restructuring of Iguatemi S.A. This was a very important step for our future and for our strategic growth. It allows us room to begin to consider a strong growth for the company and is also important perhaps something that has been less announced. To reinforce the corporate governance of the company and ensuing this we had the closing of our restructuring process and we then had two very important step. Initially, we had a glitch in the units, because the makeup of the units had a price that was too high. The idea was 1.10 units and we opened up the conversion process for (inaudible) did not carry out the immediate conversion in November, we ended up doing it in two different windows. This process was concluded in January, simply because we had the two windows and of course this increased the price of the units, which is very positive.

Another highlight, which will be remarked throughout the next and quarters and in a constant way is that we continue to bet on the omnichannel model and the complementarity of channels with the physical and/or brick and mortar store. We inaugurated the first pop-up store in Iguatemi, Sao Paulo. We had already mentioned this, but it was a very important step in terms of visibility and for the recognition of new brands. We have exclusive brands that perhaps are less well known among the audience at large and to bring together the brick and mortar doors and the online channel allowed for an expressive growth in November and December. We continue to observe this in January and February. We increased the logistic capacity of Iguatemi 365 during the year and we service 91% of the audience in Brazil in all geographies and all regions. And in fact we have a very significant delivery coverage. If we look at GMV, presently we have 50% of our GMV outside of the locations where we carry out physical sales. Last year, this figure was 30% and the enhancement in logistics was important to be able to service new customers and other cities. We continue to work on our brand portfolio and its growth. At the end of the year, we included Burberry, Michael Kors and Golden Goose. And we have new entries that will take place in the first quarter of 2022.

In terms of Iguatemi One, we also had a significant evolution in the last quarter with (inaudible) increasing the number of customers that are registered in the program. And we are doubling the work with partners who help us to carry out the delivery of the benefits of this program. We have quite a bit of innovation, experience, within and outside the shopping mall. The idea is to continue evolving in terms of these benefits. And at the end of the year, a very important event was the registry and the exclusive queue for the customers with the benefit of receiving (inaudible) Iguatemi One as part of our journey of enhancing this journey.

Outside of the fourth quarter, but still within the period as a subsequent event, we had the announcement in March, of a stake of 26% [ph] of Etiqueta Unica, which is a luxury store for used products. We invested BRL27 million. This is a commitment to continue supporting innovation and it is a perfect entry into the fashion market and a more collaborative economy. In the coming months, we continue to be very optimistic with the resumption of the economy and our sales of course, a commitment with a growth of Iguatemi we continue to invest in the updating of our shopping mall and of course investments in omnichannel, so that we can offer ever more qualified experiences anywhere in Brazil.

I will go straight to the presentation. Therefore speaking about the operation status on page 3. Since the beginning of the pandemic, we have been showing you this graph, you can see that at the bottom, the bubble is the capacity utilization because during the pandemic we had restrictions in operations and we compared this with the sales of 2019, month after month and the report focusing on the fourth quarter. We published, same-store rental of 27.8%, but in terms of sales every month we had positive results. And this is something that we have had since July of 2021. The sales have been increased above and beyond 2019, which is very positive and we continue on with positive results in January and February of 2022 always with figures above 2019 and with same-store rents at 47%.

And we do have a IGPM policy of transferring this. We transferring it on the date of the contract and we are changing our ceiling policy when it comes to temporary rates. With the improvement of the economy, we're going to have to review this transfer of IGPM and we're seeking opportunities to remove these discounts during this first quarter of this year already.

We go on to the highlights of the fourth quarter of '21. The first important point is that we are at a 100% of our capacity. And of course, this is the intention to continue on this way. We are at a completely different level, variance in the pandemic. At present, total sales reached BRL12.7 billion in 2021, down 10.6% over 2019 and BRL4.8 billion with a growth of 30.6% vis-a-vis the fourth quarter '20.

Same-store sales increased by 15% and same area sales by 11.8% in the quarter versus fourth quarter '19 with sales all above 2019. Same-store rents grew 27.8% and same area rents were up by 16.9% growth.

Revenue reached BRL1 billion for the year. This is a new brand of 16.4% over 2019 to BRL323.2 million in the fourth quarter '21, 41.7% over the fourth quarter '20 and 34.1% over the fourth quarter '19. Net revenue came to BRL867.3 million, 15% over 2019. And BRL350 million in the fourth quarter '21, 71% over the fourth quarter '20 and 49.4% over the fourth quarter '19.

EBITDA reached BRL550 million in 2021, a drop of 4.4% vis-a-vis 2019 and closed fourth quarter '21 at BRL185.9 million with an EBITDA margin of 58.9%. Excluding the straight line effect, EBITDA reached BRL486 million in the year down by 15.5% vis-a-vis 2019 and closed the fourth quarter BRL167.7 million, up 12.6%.

Net income reached BRL344 million in 2021, 9.5% up over 2019 and BRL82.8 million vis-a-vis the fourth quarter '20. If we exclude the effect of Infracommerce's share price variation, which is a factor of volatility in our results, we have a net income of BRL66 million, down 19.2% over the fourth quarter '20.

Funds from operations reached BRL499 million in the 2021, 15.3% over 2019.

Now the leverage for the quarter, we ended the quarter at 2.57 times net debt/EBITDA. It is a drop compared to the previous quarter semester and of course compared to the fourth quarter '20. We had fractional sale of land at Iguatemi Ribeirao Preto of BRL7.8 million. And as I mentioned on December 20, we approved the split of 100% common and preferred shares at a ratio of 10 shares for each share of the same type. And we had the inauguration of the POP UP store in Iguatemi Sao Paulo.

As subsequent events. And speaking about governance, we had the Extraordinary Shareholders' meet to elect the Board of Directors. We do have a completely new Board of Directors and the Management Board approved the payout BRL90 million in dividends and this will be ratified in the assembly of April 29. The acquisition of 23.8% stake in Etiqueta Unica of BRL27 million. And we have spoken about the end of the second window for conversion of IGTI3 into IGTI11.

To speak about the projects that are under way. These are pictures of our tower, the Galleria Tower and for those who drive in front of this on the highway, this is something that is very visible. It has given the shopping mall a completely different visibility. We had a certain delay at the end of the year because of the Omicron variant. We had some halt in the works that have been resumed and the tower should be launched in May.

I will now give the floor to Guido to -- begin to speak about the results of the company. He is speaking in his call here in the company.

Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Good morning to all of you. It is a pleasure to show to you all of the main financial and operational indicators of the company for the fourth quarter '21. If we go on to Slide 10 of the presentation, here we have the operational indicators. First of all, when we speak about the variations in GLA. It was minimum between the fourth quarter '21 and the fourth quarter 2019. In 2019, we sold two shopping's in past years and Florianopolis and all of this was offset at the end of 2019 and beginning of '20 with a purchase of a share, an indirect share and a purchase of a stake in Esplanada Shopping. The variation was 3.7% positive in our portfolio.

If we look at the sales, we have already mentioned them and we had already communicated this. There was a growth of 11.8% vis-a-vis 2019 and 5.6% compared to the fourth quarter. All of these are very favorable figures, a growth of 15% vis-a-vis 2019 and same-store sales. Same area sales 7.4% and 5.2% same-store rentals.

Now when we look at same-store rentals when compared with the fourth quarter 2019, it is a growth of 6.9%. And the figures for January and February are around 42%. If we consider the withdrawal of the IGPM discounts, which were discounts that we made in our results and we spoke about this during the follow-on of 2021. Because of these discounts, of course, we had a minor impact in our occupancy cost of 11% vis-a-vis 2019. And if we look at 2020, you will see the occupancy going down of course quite lower compared to the figures of 2021, but this shows you our resiliency and the work that we have done in this condominium where we do not transfer inflation for more than five years. This is a project called in the zero.

Our occupancy rate dropping, between 2019 and 2021 from 24% to 21%. But as we showed you in the release, we have a resumption of our occupancy rate. We reached 90% reaching 92 points of occupancy and ending again at 92% (inaudible) and in February, we are at 92.7% as you will see in the release. Our net delinquency rates, quite healthy reaching 1.4% in fourth quarter 2019. It was 0.8%, but this is the lowest net delinquency rate for the year. And compared to 2020, we show you the recovery and how healthy our portfolio truly is.

We go on to slide number 11. We show you the P&L of the fourth quarter 2021 vis-a-vis the fourth quarter 2020 and 2019. Growth of 40.7% [ph] significant growth vis-a-vis 2020 and the growth vis-a-vis 2019 of 34% and our gross revenue as we had anticipated. We are going to break down these results for our two businesses, the shopping malls and others, which refers to retail Iguatemi 365 and the i-Retail that are some of the stores that we operate.

Now if we look at our net revenue, a growth of 71% vis-a-vis the fourth quarter '20 and the growth of 50% with 2019. In terms of EBITDA, the growth was 14.6% in the fourth quarter 2021, growth of 21.5% compared to the fourth quarter of 2019 where we have to discount the sale of the Florianopolis shopping mall with a gain of BRL50 million because of the sale, compared to BRL153 million in the fourth quarter '20 as we have included in the release. And in accordance with the audit team, we have decided to include the discounts and worked with a straight lining effect for a period of five years. In the last quarter, we have begun doing this and of course, we're in full agreement with the CPC 06 accounting of IFRS. And we also have the resale of some points during the year for the nine months that have been accounted for and based on this effect. If we take away this BRL37 million of other operational revenues, we would be BRL11 million positive in our EBITDA with a margin of 71.7%.

Our net income is BRL82 million for the quarter with a margin of 26.3%, but impacted by those BRL37 million of reversion at some points of sales, where it not for this, our margin would be much higher. Now for the year as Chris mentioned, we have an EBITDA of BRL550 million and profit for the year of BRL334 million with a margin of 40%. And we see that we have the right portfolio in terms of corporate venture capital in terms of capital gains.

We go on to slide number 12 and we show you the cash effect of Iguatemi. When we look at this, we have eliminated the straight-line effects and here we show you the cash generation of the company. We reached an EBITDA of (inaudible) a margin of 78.9% compared with 2019. EBITDA was BRL153 million and we had a growth of 9% vis-a-vis 2020. EBITDA without straight-line (inaudible).

We now go on to slide number 13 to show you the reduction in our net financial revenues. And for the year, we had a gain of BRL291 million, making our net revenues become positive by 25%. The variation of revenues and expenses had an impact on net revenue and they are due to the growth of (inaudible) and they represent 83% of our debt and 100% of our cash that is remunerated by (inaudible) rates and our debt of 110%. If we look at the other leg of the fourth quarter, in the fourth quarter, it went from 2% [ph] to 825%. And if we look at 2019, it was 4.8% to 895%. Now with an impact on revenues as well as on expenses.

We now go on to the opening or the breakdown, excuse me, of our i-Retail and Iguatemi on slide 14. You will see a growth of our retail unit of 14% vis-a-vis 2020 and a growth vis-a-vis 2019. We inaugurated this in November of 2019 and this figure began to grow beginning in 2020 and this is significant growth for our retail unit. Now despite the increase in cost between 2020 and 2021. Our EBITDA [ph] margin went from 40% to 25.9% and this is because of our retail strategy and digital, which shows you that we have had significant growth in this business unit.

Now let's look at the results of the malls. We have a gross revenue growth of 21% vis-a-vis 2019, reaching BRL274 million of gross revenue for the quarter. We got to a net revenue of -- 70% and EBITDA of BRL194 million and 627 and 524 over --. I would like to highlight the 70% margin, EBITDA margin, if we take into account the straight-lining effect, as we mentioned in the release, our EBITDA would be BRL185 million and the shopping mall margin would be 77.8% showing you the work that we do to maintain this margin at very good levels. And it shows you the work of the company once again with a focus on this.

We go on to slide number 17, showing you the gross revenue growth. We had a growth of 33% vis-a-vis 2020 and 2019. We had a growth of 30% in rentals, a growth of management fees once again of 4.6% comparing the third quarter 2020. Parking that has reached BRL40.852 million, with a growth of 48% in line with what we mentioned that recovery of our parking flow, which presently is very close to that of 2019. And if we look at the figures of January and February, the figures for collection in parking shows us that the figures are higher than those of 2019.

In slide number 17, the rental revenue with a growth of 30% when we compare this vis-a-vis to 2019. And here we can see the work, the transfer work of IGPM with a very positive effect. The percentage revenues overage showing you the strength of our portfolio. With the sale of the international that phases a truly absurd over which, we have been speaking about the efforts with variations in stores reaching 200% sometimes and significant payment here when we look at the temporary rentals, which is an important driver for growth in 2022. We can show you that it is above 2019. All the part of events of advertising carried out as part of our portfolio reaching BRL19.564 million. It's important to show you the growth over 2020. And we see that we have a resumption of events. All of the events that we held, especially in the second semester of 2021 shows the strength of the Iguatemi brand and we have some prime events that were awarded during 2021.

When we speak about the cost issue in slide 18, we have a growth between the fourth quarter '20 and the fourth quarter '21 only for the shopping malls. Here we have taken away the complaint that we hear regarding others. Here we include retail and so here we're comparing shopping malls with a growth of 11.2%. Now what I would like to highlight is several of the costs that are here or of course, held back because of the pandemic. We have the pandemic with 10%. The third party and personnel that were also held back and growth in our personnel and the transfer to the promotional fund was reduced in the beginning of 2021 and here we see the work that we carried out with the drop of 8.6%. Now the growth that you see here are due to the increase in the shopping mall capacity with the evolution of the pandemic. Others 21%, once again very aligned with the work that we're doing and due to the drop in occupancy. And all of this was recovered at the end of 2021. And we will of course improve upon these figures in 2022. When we look at that 12 months, the impact of 70% if we take away these impacts that I mentioned, the increase of capacity of the mall. This means that our costs will be reduced and if we look at the curve of personnel cost, it will be down to 8.9%.

Now in terms of administrative expenses for the shopping mall. We have a growth in 2021, once again I would like to underscore that the difference vis-a-vis 2020 is that we did not have the payment of the PRL short-term shared based compensation. If we take away that effect from our results, we have increased our bonus programs that were deferred during that program. Our bonus with share-based compensation and we increased these figures. Now, if we take away this effect, the effect of the share-based compensation fee growth I believe would be 40%. And once again, the increase in cost was due to the events that happened throughout the growth of the pandemic. Now when we look at the payroll, we can now begin to apply this in our payroll. Now looking at the 12 months, now if we look at the year annualized and the impact, the growth of shared based compensation is almost 50.3% and the costs, which is the bonus which in 2020 was included in our expenses show us the (inaudible) and the result is 8.08% below the IPCA, the Broader Consumer Price Index.

We go on to page 20, where we show you our debt balance. The total debt falling by 1.2%, net debt at BRL1.43 million with a drop of 4.6% and the EBITDA also dropping as Chris, had mentioned. Net debt/EBITDA growing presently at 25.7 times. When we look at our cash of (inaudible) and our efforts at the debt amortization. We can see that we're in a very calm situation when it comes to our amortization program and of course we will be able to face the volatility of 2022, which is something we will be facing hampered by the crisis in Ukraine and the increase in prices.

We go on to slide number 21, where you will see the cost of our debt, our debt profile. We would like to underscore that part of our debt 13.6%, is in TR a very low TR and of course this aids and bets us to alleviate the debt. When you look at the graph below, you can see the elimination of the difference between SELIC from 3.9 where quite calm in terms of our structures, our real estate credit and this is the cost of debenture is (inaudible) with a very good average terms. So we were very calm in terms of this -- and in terms of our average term of our debt.

With this we would like to end the presentation and open the floor for questions-and-answers. Once again, Christine, and myself are here at your entire disposal.

Questions And Answers

Operator

Thank you. The floor is now open for questions only for analysts. (Operator Instructions) Our first question is from Andre Mazini from Citibank. You may proceed sir.

Q - Andre Mazini {BIO 20377100 <GO>}

Chris and Guido, thank you for the call. My first question refers to the opening in retail. I find that very important that difference between the gross and net revenue of this business is greater net revenue margin is 69% that of malls is somewhat above 80% and I would like to understand the differences. What happens between gross and net revenue for 365 the i-Retail if it is due to churn cancellations because in terms of the malls, basically you have these (inaudible) 67% and perhaps these are higher in terms of e-commerce, because of the (inaudible).

The second question about your default, still under good control this quarter and I would like to know the dynamic of that default with same-store rents that went above 40%. If it was maintained at the same level in the fourth quarter or if there are some differences? Thank you.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Mazini, I'm going to answer your two questions. This is Guido, now to speak about the P&L of i-Retail and 365. Obviously they're are different from the shopping mall. In the shopping mall, we have these (inaudible) and the revenues. And when you look at i-Retail and Iguatemi 365, you have the part of issues and sorry, services and INSS, the social security. And in i-Retail and Iguatemi 365, especially in the i-Retail, you do have that exchange condition, which means net revenue or gross revenue tends to be lower, which is what we don't observe in terms of the shopping mall.

Now when we speak about default, what we can observe is that we eliminated the discount in January and February perhaps not all of them, but formerly we had a large part we have reduced this to 40% and because of this it has reduced our default. I would like to remind you that the default rate in the first quarter is always the worst because it doubles the rents of December that have to be paid in January and despite this we have observed that the default rate of January we have eliminated the discounts was lower than that of 2019. And the discount rate of February was higher than we imagined. Now the default of March tends to be higher than what we had imagined, but nothing that goes beyond what is normal. Now let's forget 2020 and 2021, and the rates were higher than they were in 2019, but nothing that goes much beyond what is normal and what we observe in our portfolio.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you, Guido. Thank you very much.

Operator

Our next question is from Gustavo, you may proceed, sir. (Operator Instructions)

The next question is from XP Investimentos.

Q - Igor Rezende

Good morning and thank you for the presentation. And congratulations on your results. We have two questions at our end. First of all, regarding your leverage, which is very low 2.5 times, which allows you to work with M&As and acquisitions and how did you get to this dynamic in an environment of higher interest rates and if you're going to leverage your balance even more to make the most of opportunities.

Our second question is about Etiqueta Unica, what can you do to enhance the operations after the acquisition and eventual synergies with 365 and the Iguatemi ecosystem? That is all. Thank you very much.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Hello Igor. I will answer your questions. We're hopeful (inaudible) when it comes to lowering our leverage we begin with that effort of reducing it. During the pandemic, we carried out significant work of course in terms of reduction and we carried out a herculean task as Guido showed you to hold back our costs. So that we could generate a leverage that is within reasonable parameters and of course this is what happened in most of it and we have a significant improvement in revenues and the leverage continues to drop. You are right, we have to maintain the balance property. This is important especially now and our intention is to look at the opportunities that arise. I tend to play around that good assets don't appear normally, and the interest rate at present certainly is not the best possible it might lead to a higher leverage something that perhaps will be interesting, but on the other hand opportunities don't come up when we want them and all the time. The competitive M&A environment now plays in our favor because some players especially the large participants of this movement of acquisition have stakes and assets are somewhat more held back because of the high interest rate and we have several players in the market. Therefore considering the different possibilities. It is our understanding that the moment of course will never be perfect, but it just makes sense for us now we have always, been very careful with capital allocation from the company when we worked with greenfield [ph]. We had to enter the M&A scenario somewhat stronger and this will also happen in coming periods when we put in money to make a new shopping mall or to purchase stakes. It's because we believe that asset has the quality and the potential of whatever we have in our portfolio, which is from average two shop we're acquiring things that are accretive in the medium and long term for our portfolio. Now there has been a long season of a high interest rate. And when we speak to our foreign investors, we say we are Brazilian, we are used to volatility in our interest rate. It will not be there forever and so we want to have those assets in our portfolio. So in the medium and long-term, the intention is accretive.

In terms of Etiqueta, we're extremely satisfied with this acquisition. It is a earning that we had of being present in circular economy. The re-utilization of second hand goods, they are the ideal partners for us. They already have a very highlighted position. It's the largest second hand luxury product e-commerce in Brazil. It's interesting in terms of operation, and also in terms of value. Their vision is very similar to ours, delivery of quality. It's something cultural, it is very similar to our culture and we see that it will be very synergistic with Iguatemi 365. We detect possibilities of somewhat integrating the operations leveraging them and integrating this with our mall.

And I can give you an initial example of what we foresee. We're thinking of making our malls a place to pickup products. If I don't use a pair of shoes anymore, I'm going to pick them up and bring them here to the mall for Etiqueta Unica. And we can have that drop off in Iguatemi Sao Paulo. This could be far below in terms of capturing customers. I think it would be excellent and would facilitate the end consumer journey in this recycling journey and much more. So we are highly motivated in terms of this partnership. This is a market that we understand will grow considerably in Brazil, with significant growth and we're going to aid and bet this growth period for them.

Q - Igor Rezende

Very good, Chris. Thank you very much, very clear answer.

Operator

(inaudible) you may proceed with your question.

Q - Analyst

Hey Good morning. Can you hear me?

A - Cristina Anne Betts {BIO 16203383 <GO>}

Yes, we do. Yes, we do.

Q - Unidentified Participant

Finally. I do apologize that technology in this call is overly sophisticated for me. I would like to post two questions. The first refers to what you mentioned same-store rents of 40% for January and February and that significant reduction in vacancy. I would like to understand if that vacancy reduction will have rents that are similar to these new renewed rents without discounts considering the level of vacancies that you're starting the year off with. This could be a great driver for the growth of EBITDA. So what is happening with the rent of the new leases compared with the older leases in same-store rent.

My second question refers to 365. As you have been speaking about i-Retail and this, when we look at this phase of growth that there is a slightly negative EBITDA of course because they are growing at a surprising speed considering the size of the investment. The EBITDA is almost BRL8 million negative, but which is your view going forward when you turn the key and you have heavy investments for 2022 and 2023, when will this be operating at a breakeven situation? Thank you.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Gustavo. I will begin with the first question, Chris will respond to the second one. When we look at our same-store rent in January and February as we had anticipated, we have withdrawn some discounts not wholly, we still have some to withdraw. We have to look at our P&L for March. And of course, we're doing this very cautiously because there are some sectors that continue to be quite hampered and they need to improve. When we speak about vacancy and we speak about the increase in occupancy. As you saw in the release in January, this is when people give up a bit, they hold on up to Christmas because of the importance of this holiday and we have increased occupancy both in January and February this year. There was a slight freight in January, but we still continue to see very strong commercial agendas.

Now in terms of the international stores, the objectives that we received have truly been impressive with a huge growth in same-store sales and we're highly motivated with the growth of i-Retail and with the local retail in January as well as in February. So in terms of our trade agenda, we celebrate all of the contract signatures. We share the signing of contracts and the store openings and we believe that in March the figures will be above what we had for February and we're going to scale up in the second, third, as well as in the fourth quarter.

So when we speak about the rent based on these new leases, it's very easy to occupy a store. We have reached an occupancy rate of 97%, but we were hedging our rent, the person who didn't want to pay the rent will began -- took us back to a 90% occupancy rate. We increased from 90% to 94% to 97% and our list price has been corrected by IGPM. This, when we look at the level of the shopping mall or the floor where that segment is located. We're very careful in terms of the leases that we charge. So, this is an avenue of growth for us. We're going to work with the leases adding new rate based on the IGPM and of course, this is an avenue for growth.

Now to speak about 365, our retail unit -- now before we speak about 365, we would like to speak about i-Retail. It came about in 2008 when we begin to bring an operation that were not able to operate on their own in Brazil. Now Brazil, of course, always has a very complicated environment in terms of imports, operations, taxes. It's highly complex and people are unable to understand the system. The schedule for the operations of the stores tend to be very different. So we began this operation to make some brands in the shopping mall more feasible. And with 365, we have created another unit for brands that are exclusive brands that are imported and operated by i-Retail as well. So, there is great synergy between the operations. Practically all of the brands operated by i-Retail are present in 365. The only one that is not there, because the brand does not allow for this is a brand that we operate with offline, but the synergy between both is enormous.

We had growth on both fronts. We had growth in 365 as well as growth in i-Retail. What we have observed is that luxury brands had a very good performance during the pandemic and this also apply to i-Retail everything that we were saying also held true for i-Retail. And we had a growth in the 365 operations. We left from Sao Paulo almost a year later. We had a increase of five sites. And then a geographic expansion, we have had significant growth in the last two years.

Now, going forward, we should have greater growth in 365 and than in i-Retail. The idea is to test some brands -- brands that we bring into 365 through i-Retail for brands that have a lower performance. We will change them and substitute them with other brands. So, i-Retail shouldn't have a significant increase in volume as we had during 2020. While we should observe hopefully of course is an enhanced performance of the stores and we're going to follow up on all of the market movements. So going forward, and because of what happened in retail, we should have a greater increase in 365 than in i-Retail. i-Retail is bringing us, 365, I'm sorry is bringing down somewhat, because it hasn't evolved as much as i-Retail. It is our retail baby, our shopping baby and it's still maturing getting older and especially now with what we will be doing with the launch of our app in the first semester. We should have a significant increase in marketing because of the app. Up to present we're working exclusively with the web and as we mentioned in the release, we still have issues with logistics, we have had a significant reduction. We're going to outsource part of this to facilitate the operation.

Now the effort in the launch of the app will be very important for us. We think that we're going to be doing very well, but the awareness of this is very limited so far. The fact that they will have a fantastic platform and the app will have to be greater efforts and perhaps our results will be pulled down a bit. During the year and we don't know exactly, which will be the proportion between the two perhaps. We need to avoid having a negative margin in the retail because of the growth of the app. We're looking upon this positively and looking forward, we do have forecast, which I will now mention. We're giving our arm and our heads. We've done the first important step, which was opening i-Retail to calm down everybody and now, we're working with greater clarity and we're quite motivated with the year. This will be an important year to consolidate the level of operation of the retail market and the number of users of 365, is also motivating it is less important this year for 365 to increases its margins. We do have some important brands that we're seeking out, but perhaps in a lesser quality -- safety. The quality is important. We have a good level of offer, we have to put our app in the air and it creates awareness of all of this.

Q - Unidentified Participant

Thank you. That's excellent. That was very clear. Thank you, Chris. Thank you Guido. Have a good day.

Operator

(Operator Instructions) The next question is from Bruno Mendonca. Bruno, you may proceed.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Can you hear me? Yes. I had to learn how to do this and I received some help to do this. Two very quick questions from my side. First about Infracommerce, do you still see room for investments in Infracommerce so that it can play a strategic role for you or has this become a purely financial investment? How do you look upon this going forward?

The second question also an issue that was little exploit the land back the potential for construction, is there anything in inside to use this land bank. And I'm referring to that mega land that you have in Campinas, is there any outlook to begin to develop something in that region? Thank you.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Hello. Bruno to speak about Infracommerce in 2019, when we make the investments we were also launching 365. And the intention that we have above all was to learn from this. It was an excellent investment for us of course, but because of everything that we have done in this unit. The goal was either to learn or to speed up growth. The idea was to better understand the digital operation and learn with 365. We never had a commercial relationship and we're looking for some services. We're obtaining quotes from outsourced parties as another player to carry out some services for us, but of course we're not basing ourselves on the experiences of the Board, we have our own relationship we didn't need this investment to carry out this learning. And we understand that this is simply a cash position for us at some point in time if something that we have to do. Perhaps this is not the best moment to do this. Because this a more liquid investment than a medium or long-term investments. So it does offer a range of possibilities.

Now when it comes to the land bank, we do have a note that shows you how much we have in square meters in our surroundings and this is where we could work with other possibilities, both residential, commercial and much more. We detect a great deal of opportunities for the coming years to increase the density around us. As I mentioned in the last call, we visited the (inaudible) and it's impressive it's different when you see it, hear about it and you see it and you now see the number of activities in the surroundings of the shopping mall and everything that is arising there truly is wonderful and everything has very good quality.

And I said that because of the price of the square meter, if I have to begin again, I would begin with residential building. Now, we are going to continue on with this and the project of (inaudible) in Campinas is underway at a completely different pace. We're dividing the land in plots, we're waiting to see if there's any movement against this. We're once again on waiting mode, and after a fortnight we should receive the final, okay, which means that we can begin to work, we can begin to receive quotes for the new structure. This year we're going to be building a prototype to test the standard that will be our infrastructure and those land slots as a whole and we can make adaptations in the project during this period. And we're going to build the headquarters of the neighborhood, which will be called (inaudible) the neighborhood is also called (inaudible) All of this should be inaugurated this year and will be used as a showcase for the neighborhood, for the residencies that we want to build. Now everything will happen in the headquarter of that neighborhood, which will be the headquarter of (inaudible).

And finally we do have an important movement in that new neighborhood in Iguatemi Campinas, which is a reason for great joy. We are quite satisfied with this, it has enormous potential not only for the neighborhood that will be fantastic once we have that headquarter inaugurated, we can schedule the visits because they will be important to understand that dimension of the project, but also the quality of the project and what it will represent for the Iguatemi Campinas and incredible top-end new neighborhood.

We have the number of towers that we already have in operation, our portfolio as well. And people would say that these fractional sales are not recommended, but this is something we have been doing since 2010. We have been doing this recurrently for 11 years.

Last year, we had BRL27 million of sales from this. And of course, we're going to continue on with this using this and creating partnerships, both for commercial and residential construction as we have already done in the past. Our (inaudible) in Campinas. Of course, it's the size of Vila Olimpia in Sao Paulo, which is neighborhood here, a very important neighborhood.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Very quick follow-up. This first stage, which is a part of infrastructure, will it be done with the format of the sale of ideal loss of fractions or will this be done subsequently? I would like to understand the impact of this.

A - Cristina Anne Betts {BIO 16203383 <GO>}

We have ongoing work. We have to create the infrastructure of these plots. We have to work with the person responsible for this. The stake in the land has been inverted, which means that we have 30%. The rest will demand disbursements. It's the opposite relation -- proportion that we have with the shopping mall. And we have to begin to launch all of these, but in truth, there is already something at the other side of the highway, something that will begin this year that is also part of the CASA to get a part, but it is not part of the main body of this construction. We should have results of the sale of these fractions this year, but a very minor amount. And it will be relevant this year either. So we can give you more color offline, if you wish.

Q - Bruno Mendonca {BIO 16313094 <GO>}

That's wonderful. Thank you very much.

Operator

Our next question is from Santander Bank from Fanny.

Q - Fanny Oreng {BIO 21102709 <GO>}

Good morning, everybody. Chris and Guido, I have two very brief questions. When we look at individual assets, we see that most of them have relevant growth vis-a-vis the fourth quarter 2019 [ph]. Now the marketplace still does not perhaps because of the home office issue now with the reopening and resumption of the economy, could you give us your outlook of what is happening with the commercialization of marketplace, the flow, your view on this asset and in terms of individual assets? And other question that I hear from investors refers to the (inaudible) shopping mall. We know that Brookfield is -- has entered into negotiations to have a stake in these assets. Is there opportunity to improve the NOI of this asset? Thank you very much.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Hello, Fanny. We're speaking about the marketplace. Now the marketplace, in fact, was greatly hampered during the pandemic. They have a vocation of servicing the corporate world, and we have seen a significant change in marketplace. There are more convenience stores, more restaurants and all of this disappeared during the pandemic, and that is a corporate region that works with a niche and some areas have resumed faster than others. Other areas are taking some time to resume. Now in terms of the towers of the marketplace, everything had been leased out. But in terms of people going to work at the towers, this has been reduced to 50%. After carnival, we have observed a greater movement, which is great news of course, because it means that people are returning to offices. This means that restaurants will resume their movement.

However, the vocation of that shopping mall is just serve that type of public. Now we're involved in some movements -- different movements, I don't know if you have seen that. We launched in last April, checks, which is the global experience, something that is truly wonderful. It's a (inaudible) of the different programing from Global BBC club, the part of sports, there is a restaurant inside, you can go inside and have this experience from the different programs. You can also enjoy the restaurants. So this is a novelty in the marketplace, which will also be very helpful. Once again, the corporate public is there during the week and there is that surge to bring back enjoyment on weekends through the restaurants. The restaurants are doing very well. They're resuming in the marketplace.

You are right. Our shopping malls perhaps the one that suffered the most, and that is having a different resumption. They will get better because offices are resuming their work. There will be less people at the offices because of online work, but the rest of the companies are also re-qualifying their offices. They're going to have less people, but they can re-qualify the rest of their spaces and make it better for their in-house audiences.

So companies are looking for optimized spaces in the marketplace is wonderful for this where in Iguatemi, Sao Paulo, nothing better than to work in the shopping mall. There's everything on the floor level. There is public transportation that is incredible. The location is incredible.

Now regarding the Higienopolis shopping mall -- regarding the Higienopolis shopping mall, as everybody knows, this is an asset that we've always been very -- we've been great fans of it is in accordance with the profile of the assets we have in the company. And during the last few years, we have done work -- important work to re-qualify the mall. The mall has very good revenues in terms of square meters. It has several tenants that are important, but through the time, it suffered because of the qualification. We have been re-qualifying the shopping mall mix. We're also using that power of being in a large group in Iguatemi in terms of the condominium. There has been a significant improvement in this.

It is very important for the mall and as part of what we have always done forever and ever with assets is this qualification, which is an ongoing process. You change your change -- your change, but we do have a positive long-term vision for Higienopolis shopping mall. We should put in our first luxury international pop-ups in the mall, and we're not going to give you a spoiler. We're going to have a new brands, so we're making several movements, but it's not something that will appear immediately. There will be some time for the consolidation of changes. And this is what we're doing along with our partners in the Higienopolis shopping mall. It won't be an immediate resumption.

Q - Fanny Oreng {BIO 21102709 <GO>}

That's excellent Chris. Thank you very much.

Operator

We have a question from (inaudible).

A - Unidentified Speaker

Hey, good day to all of you, and thank you for the call. We have two questions. Chris, you mentioned that you have to make the most of opportunities as they appear in terms of assets. How do you look upon the volume of opportunities that you could have -- we have spoken about how important the Higienopolis shopping mall is. Now which are other assets that you're looking upon as part of this makeup, if it would make sense? Or if there is a level where you say this is much too large for us, we're only going to focus on the Higienopolis mall? This is the first question.

The second question is based on the comment by Guido that the discounts in terms of IGPM have practically all been withdrawn. Which is your view of an integral transfer and the growth of the lease above the present day levels, especially in the economic situation that we see? Are you going to comply with the level, or are you going to have increases for the tenants? Thank you.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Hello, Daniel, I will answer the first question, and Gudio will answer the second. I'm going to give you an answer that is quite general here. We're looking upon several opportunities. We have Brookfield, but we have several other opportunities. And we have to look upon what would make more sense for our portfolio and our growth strategy because we federally want consolidation. We want to leverage our digital part. So, we do have a significant omnichannel strategy, which we are working on. And of course, we're aiming at having a better portfolio than the one we have presently. We already have a fantastic portfolio, and we want to enhance this portfolio further.

Now everything will depend -- the beauty of M&As is precisely that, we used to have a new Business Director that was fantastic. He spoke about attraction and how that works. They give you something small and then the attraction growth. So we're looking for new alternatives. It's still very early on in the process to know exactly which direction we're going to follow. Perhaps, what we should understand is what we want to bring in house assets that have the quality of what we already have in our portfolio. Now, how much we're willing to do will of course depend on negotiations, price and much more, the negotiation conditions and others. It's too early, Daniel, to give you more color on this. Perhaps further on, we can debate this in greater detail.

Q - Unidentified Participant

A follow-up to the question. Now the leverage is that could be repeated or if you would be tolerant to work with somewhat higher leverage?

A - Cristina Anne Betts {BIO 16203383 <GO>}

Well, we can have a very low leverage at present we do. And the answer would have to be affirmative, if we get involved in M&A. We're going to have to work with a higher leverage, and we're confident that if what we want to bring into the portfolio has quality, we have of course been through other worst moments with higher interest rates and this was done. The good thing about M&As is the asset already contributing to cash, and there is that important difference vis-a-vis greenfield, you have a higher leverage momentarily, but it will be diluted at a faster pace.

Q - Unidentified Participant

That's perfect. Thank you, Chris.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

(inaudible) regarding your second question, when we speak about the IGPM discount that we gave in 2021, we're now working with the billing of January. And we're comparing the figures with 2019. We looked at the cost of occupancy in 2019 [ph] and the cost of occupancy in 2021 and 2022. With a discount of IGPM, now -- if we take away the discount, we seek to maintain the occupancy rates. So we're no longer going to offer this discount. In the larger shopping malls, we have withdrawn this discount integrally. Of course, those stores that are still suffering, there is a limitation, I'm referring to movies, the service, avenues that still maintain an IGPM discount. And this for the weaker shopping malls in January and February in medium-sized shopping malls we withdrew 50% of the discount. And in others, we have withdrawn 20% of the discount. Now 20% of our portfolio already does not have the IGPM discounts, and we're going to eliminate this discount until the end of the year. This is a growth that will help us in our P&L, always looking at the occupancy rates and the sales. Now if the occupancy of attendance is lower, we're going to have to be very -- therefore, in February, the discount is 40%. They will remain with that until the end of the year. And in the new occupancies, we're working in a different way, of course, everything has been corrected by the IGPM with the commercial list price that is in effect.

Q - Unidentified Participant

Thank you, Guido. Thank you very much. Thank you, Chris.

Operator

We have a question from Alex Ferraz from Itau BBA.

Q - Alex Ferraz {BIO 18651758 <GO>}

Hey, good morning, Chris and Guido. Thank you for the presentation. I have two questions that referred to the operational part. You spoke about your sales performance until January and February. And in comparison, the sales were quite strong for the beginning of the year. That tends to be weaker. Is this impact of the date, because this is the time when seasonality tends to be higher? Is there a recovery in terms of entertainment as you mentioned? And as part of the portfolio, the luxury segment doing very well, especially compared to last year. Now do you have more high-end customers who are traveling again? Is this is what is heating up business in that segment?

Second question is more of a follow-up. You spoke about the retail part. And it's interesting to observe that in the quarter, specifically though revenues [ph] quarter-on-quarter and although the EBITDA margin was negative, it did have an improvement of 5% compared to an average of 40% for the year with large operational leverage. So this margin should increased considerably, even though the variable cost component, if not similar, this will unharness your margin. And is this what would happen? Am I making sense here?

A - Cristina Anne Betts {BIO 16203383 <GO>}

I'd like to speak a bit about the sales at the end of the year. We began the year in January with Omicron variant. We had somewhat lower traffic in January because of this lower than normal. We had high levels of Omicron. And we thought, here we go, we're going to begin everything again. But in the second fortnight going forward, there was a huge recovery of traffic and significant recovery that continued on in February. So the first two weeks of Omicron were very strong in January. And performance very similar to that of February. In Rio de Janeiro, there was a greater recovery of traffic. So this good performance when compared to 2019 shows that we have had a change in my opinion. Power consumers consume. While we tend to say people have gone back to traveling, everything is going to have a drop, people are going to buy things abroad, but I don't think it's the case, what we observe in truth is that we have learned to buy things in Brazil. There was that old idea that Brazil was much more expensive than things abroad and this has disappeared. We see that the price of international articles is almost the same in Brazil presently. And all of the main brands, the luxury brands, are already in our new shopping malls with a very good assortment of products. We have stores with enormous differences of SKU as they have in New York. We have a very relevant department and very well geared to this and I tend to play around that you can pay on your credit card in instalment.

And this is part of the relationship with the store when the manager knows you and says you are an important customer, they will send you the novelties that appear, the new collection launches, they invite you into the store and all of this increases conversion. So we have a more personal relationship, a more customized treatment and you don't need to go twice a year abroad to buy from a very full store.

We see a lot of people changing their behavior and buying more in Brazil with greater frequency. And Guido mentioned that we have several international brands in the last three or [ph] four months. Coming to Brazil, what they really want is to increase the quantity and the product selection in Brazil and the question is how to work with marketing to increase loyalty and draw new customers because they have finally realized that our customers are Brazilian. We don't have customers from Switzerland, nobody is coming from Europe to buy Gucci here in Brazil differently from other countries in the world that sell enormously because of tourism. This is not the case here.

So the relationship that we create here with our customers is a very permanent, constant relationship. And we will have that stickiness of sales through time, that will be very important for us, especially because of our customer profile.

Now that is the first part, the second part is about the margin of the retail. Simply to complement the answer that we gave you in terms of retail, i-Retail is accretive, but it will be growing less, quickly than 365 because the digital segment platform is completely different. It's very different from opening a store. We opened up several stores. We opened up more stores. We brought down products and brands through 365. And this is something that will be done more constantly going forward. Now 365 with the launch of the app that will happen in the first semester, will have to grow at a faster pace. And 365 nowadays has a result that is going downward more than retail.

In the coming months, we should have a deterioration in EBITDA margin because of the growth of 365, but there is a gain of scale here that we are seeking with the growth of 365 and initial movement of worsening. We're focusing a great deal of marketing, the launch of the app this semester, but obviously with the growth and with base stores that we have to render services and the increase of sales, nothing will increase. This will simply dilute the installed capacity through the sales, (Technical Difficulty) the app and the marketing will bring all of this for us. I don't know if we'll hit breakeven. It's not part of our projection of course, and it won't be very far away.

And this year, we're still going to capture new customers. And Alex, when you look at our customer acquisition, we have (inaudible) years of operation. Our audience and our communication channels has grown considerably. And all of this will also show us that all the acquisitions have been carried out, the audience is much larger vis-a-vis two years ago. The audience of 365 is much higher than it was. It is higher than any other component in this luxury market.

Q - Alex Ferraz {BIO 18651758 <GO>}

That's excellent, Chris and Guido. Thank you for your very complete answers. Thank you.

Operator

As we have no further questions, at this point, we would like to end the question-and-answer session. And we return the floor to Ms. Cristina Betts for her final remarks.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Well, thank you very much for participating in our call. Of course, we're entirely at your disposal through the IR team. We're quite happy with our results and very optimistic for the year 2022. Let's move ahead and soon we will be together again in the first quarter 2022 release to discuss results. Thank you and have a good day.

Operator

The Iguatemi conference call ends here. Thank you for your participation. You can disconnect now. Goodbye.