

Q1 2020 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer and Investor Relations Officer
- Jose Isaac Peres, Chief Executive Officer
- Vander Aloisio Giordano, Executive Vice President Compliance and Institutional

Other Participants

- Andre Chaves Mazini
- Bruno Mendonca
- Enrico Trotta
- Gustavo Cambauva
- Jorel Guilloty
- Nicole Inui
- Victor Tapia

Presentation

Operator

Ladies and gentlemen, good morning and thank you for waiting. Please be welcome to the First Quarter Earnings Call of Multiplan. We have here present, Mr. Jose Isaac Peres, President; Mr. Armando d'Almeida Neto, Vice President, Executive Director of Customer Relations; Mr. Marcello Barnes, Vice President of Development; Mr. Hans Melchers, Planning and Investor Relations Director; and Mr. Franco Carrion, Customer Relations Manager.

We inform all participants that the presentation will be available for download at the website ir.multiplan.com.br. We also inform the participants that you can only hear the earnings call. And thereafter, we'll start the Q&A, where more instructions will be provided. (Operator Instructions).

Before we proceed, we'd like to clarify that any statements that might be done during this earnings call regarding the business perspectives of the company, projections, operational and financial goals are based solely in the analysis and statements of the Board of Directors at Multiplan. All of this based on info currently available to the company. Any deliberation about the future does not assure performance as they involve risks and uncertainties. These premises are taken into account, well, future events; and thus, they depend on circumstances that may or may not take place. The shareholders must understand that the general economic conditions, industry conditions and any other operational factors can affect the future results of the company and may lead to results that differ from those previously stated.

This earnings call will take approximately 60 minutes. After that, the Investor Relations area will be available should you still have any questions.

Now I would like to call to the floor Mr. Jose Isaac Peres, President. And he will start the presentation. Mr. Peres. Good morning. Thank you for the opportunity. The floor is yours.

Jose Isaac Peres {BIO 15388489 <GO>}

Good morning, everyone, ladies and gentlemen, everybody that has the patience to hear us. I will start the presentation, my comments about this phase and the quarter -- the first quarter of 2020.

Well, we are living a moment that is very hard for the country. And to start the comments, I would like to, first of all, in the name of the company, I would like to thank all of those that are in the front line, fighting the pandemic of the coronavirus. Also, I express my solidarity to the victims of this disease and all the families affected by this global crisis. And specifically, the retail sector, commerce and services is being harshly hit. Commerce is one of the biggest providers of jobs here in the country. And it's suffering for 45 days with the deprivation of our activities, 45 days. And we hope evidently that in May we will return to activities with the families and millions of people that are being affected. Well, people that are unemployed will undergo the provision, they will suffer with hunger. And possibly, we could have more victims due to unemployment than maybe coronavirus.

I always stated that this isolation should be vertical, that we should have first placed in the youth, the most vulnerable people would be at home and youth would be working and they would require the antibodies. And thereafter, they would not contaminate the more frail people. But because of political issues, this is not the case. And as a consequence, the country stopped producing, and commerce and services is the sector that suffers the most maybe.

Well, let's talk at least about our quarter in our shopping malls, we -- while they were closed in mid-March, they were arbitrarily closed because in this country, it's very curious, the President is no longer the boss. We have 27 Governors that are 27 Presidents really; and the Mayors, we have 6,000 Mayors that are sub-presidents. So really the feeling of deprivation of freedom is absolute. And people are still confined to their homes. But this month of March, until March 15th, the operation of -- well, our results were very satisfactory, were very good until March 15th.

Let's consider sales here. From the storekeepers, from January to February we grew in regards to the same period in '19. Well, if we get to mid-March, this is the time that the shopping malls were still open, we grew 6%. This number is, well, really showing that our company is growing, that in February we were reaching sales of over 10%, and we grew 3%. I'm sorry. So we have a lot of measures to support the shopkeepers. And they reflect on the results.

Our revenue here for rent was positive, if we only consider 75 days being worked. And we got to BRL236 million. The growth revenue got to BRL353 million in the quarter. Well, and

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we have the 15 days that we did not work in March. This represents a growth of 3.8% in regards to the quarter of last year. The rhythm of growth was higher from March '19 to March '20, and the revenue would have been BRL1.4 billion. This represents a growth of 5.4% in regards to the previous 12 months.

Now, the operational net results, we got BRL298 million, a growth of 7.4%. Here, other good results were also observed. For example here, the EBITDA got to BRL344 million, growth of 49%. We had a net revenue in the quarter of BRL178 million, a growth of 93.3% if we compare to the first quarter of 2019, with a margin of approximately 54.5%. And the net debt, it's in regards to the EBITDA 2.6, and still maintained basically that number 2.6. We haven't changed it.

I would like -- well, here I am going to show you a few important things. We created, well, Multiplan -- in Multiplan we have a channel so that the shopkeepers can do remote sales. Here, we have the software, well they -- and the customers can receive their purchases at home. This is an advancement. We are associating ourselves for many -- for a long time with delivery centers. And this is very useful, servicing the demand that grows, specifically over the last few days in this sector.

Now in the cities where we are authorized, we have the services, for example, in supermarkets, in shopping malls, et cetera. Multiplan also supports the communities where we work with donations, partnerships, for parking lots. We have the testings for COVID-19 and the educational campaigns. We are getting ready to gradually start working and operating from May onwards. And we are working proactively to preserve the best health possible for everybody. And we have a protocol for the decontamination of our operations. We hired experts and we will install over a thousand points of hand sanitizers. And we will have over 120 dispensers per -- well, added to the malls. The use of masks will be recommended, almost mandatorily. Gloves will be mandatory for everybody that works at the shopping mall.

We bought 100,000 masks for that and 25,000 tests to test the people that work at the shopping malls, the staff, in the cities that will start to open up their commerce and services sector. We will evaluate our collaborators, we will measure the body temperature, so they can access the shopping mall. We will create a new system for ventilation of the air and increasing the distance in really the food courts. And this is also being pursued by all of our colleagues in this sector -- in this segment. With all these measures, we will assure the safety, and we will work with our customers and we will contribute so that the country can overcome this very hard moment. And as you know, our company is 45 years old. And me specifically, I've been working for 57 years as an entrepreneur, and we've gone through many crisis. However, this is another challenge, and our capacity to work here is being tested. If you do not adapt, you do not survive. And this is my comment to you.

Well, we were first a real estate company, and we were the first to migrate to the investor sector, because at that time, with the high inflation, the companies, they would have a revenue that was almost fictitious. And this revenue they couldn't even buy the same land, they bought to build on. That's why we -- well, depended more on credit, that was very expensive. And if we continued like that, we would go bankrupt. So we migrated our

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activities, and we worked with shopping centers and others. And this is what brought us here today. And the shopping malls will adapt. This is a paramount moment in their lives. The concern, the perturbation with hygiene is something that we hold very dear. And I've talked to my colleagues, the toilets, the hygiene there is very important for over 30 years for us. And we will introduce extra equipment that will provide to our customers, to the consumers, more flexibility. And they will see that the use and the hygiene will be at the highest level.

Our shopping malls, they work as hubs, social hubs. They provide freedom, leisure, culture, convenience. So we are a big center of convenience. And the biggest spectacle of the shopping mall is not the stores or the theaters, the biggest spectacle of the shopping mall is, well, is the people that go there. And people that are confined today, they feel deprived of that freedom. And that's why the desire -- well, I think that the desire to go back to the shopping malls will be enormous. And we've done a research that shows that the shopping malls is basically the beaches here in Sao Paulo. And the other day, they arrested people at shopping mall 15 kilometres, and there were only two people and they got arrested, 4 men arrested 2 ladies.

And well, this is almost like a dictatorship that we are living right now. We have 27 dictatorships. We have 27 governments and each Governor is a dictator. And that hurts me because not even in 1964 -- I went through the revolution of '64, there was no moment of that -- such as that. Nobody lost their freedom, only those that fought against the nation. Well, I am optimistic. I believe that now, more than ever, people will want to go to the shopping mall. And people are really dying to meet again, to see people. Our cities are cities that, unfortunately -- well, people don't walk outside, the cars have nowhere to park, and our cities are really chaotic.

And the shopping mall -- without the shopping malls, the cities do not work. And people are imprisoned in their homes. Some sectors went with that. Probably the TVs that -- well, the news that say that basically you only die of coronavirus, you don't die of any other diseases, this is my observation. And the -- this is our evaluation. So we evaluated that we have 80,000 people dying of pneumonia and the flu per year. If we had, in fact, hospitals that were well-serviced, we would have less people dying. And instead of investing in the World Cup and the Olympics, maybe if Brazil hadn't done that fiasco, if we had invested in healthcare, today we would be more at ease. We would not have to see this pyrotechnics of the Governors doing the hospitals in different places, building campaign hospitals on site.

Well, Brazil cannot withstand the situation for a long time. As I told you, I have gone through many crises. And I know that this time this is an important crisis from China, this is the worst. And since this is a biologic pressure, it became a weapon, a psychological weapon that imprisoned everybody at home. And this is the worst effect of this pandemic. Here in Brazil, it's really pandemonium. But other countries suffered as well, they had demographic situations. They were different from Brazil, but we adopted similar models to people that have 400 inhabitants per square kilometer. We have 7 people per square kilometer, the United States has 76. They have people that are very concentrated. There in the United States, it's very natural that the concentration of people in New York in elevators, it's very vertical.

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But just so you know, New York has a surface area that is -- that looks like the neighborhoods of Leblon and Ipanema in Rio de Janeiro. And in Leblon and Ipanema, you have 100,000 people living there. In New York, you have 11 million people living there. So 100x the demographic concentration of Rio de Janeiro, those neighborhoods. And it's higher and it's, of course, a very rich and very powerful country such as United States is suffering in some regions. Brazil has a lot of cities that don't have coronavirus. But the authorities understood that because of precaution or because of a political vision that people should close the shopping malls, and they closed us.

So I make an appeal for those that are hearing us so they can understand that Brazil has to leave this situation as quickly as possible, and we need to adapt more than that. The moment that we are living with all the -- we will provide all this safety for the people that go to the shopping malls, specifically talking about healthcare.

Thank you very much. Thank you once again for your time. And now I give the word to Armando Almeida, so he can talk to the economic issues.

Armando d'Almeida Neto

Well, thank you. Thank you very much. Good morning. I have two very brief comments. First, I wanted to show you in the way that the company worked very quickly in several fronts at the same time. We are working in the rental front on how to reduce the occupancy costs for the shopkeeper to -- so we can help them go through this moment, thereby reducing rent. This was broadly stated, the -- we reduced the costs in all of our enterprises. We also worked in the front of investment. CapEx, we delayed works that were already started. And well, we are only delaying these works due to everything that is happening. And with that, we will decrease the impact for the company.

And the third biggest pillar is the management of initiatives that prioritize liquidity -- increase of liquidity. In real numbers, well, I highlight financing that we've taken BRL225 million for 15-years payment, monthly payments. We also had another financing to provide more liquidity to give us more muscle to muscle ahead. This is one of our initiatives. And last but not least, initiatives that focus in the reduction, cost reduction. As I was mentioning the rent and we have -- even though this is very specific for March, this is something that will affect the efficiency, not only the efficiency of this quarter, but the next.

Another point that is very important is the use of our vision. We are completely conscientious, and we know about the challenges that we have in the short and the medium term. And we know that this is a challenge that motivates us. And we will overcome this. But what we do not lose is the vision on the long term, and not losing the characteristics of the company, which is doing things well done. In the 45 years that we worked, this is a strong focus for us, developing high-quality projects.

I'm going to stop. There is a lot of things to say, but it's important that we can answer the questions. So good morning. Thank you. Thank you, everybody. And let's go to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Well, very good. Ladies and gentleman, dear guests, we will do the Q&A now. (Operator Instructions) The first question will be from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. Thank you. Thank for the opportunity. Well, I actually have two questions. The first, if you can comment on how was the view of the shopkeepers that you reduce the rent, you submitted it with the reduction of the cost and the rent, what is the percentage of payment and how is the rent doing in April? And well, the second question is more broad. I wanted to understand in your overview, well, how will this come back? How will people come back to the shopping mall? How do you think that we will regain this growth? And the pandemic is something new for everybody, and my doubt is, how do you think that we will return -- how people will return to the malls? And do you think that we, today, are living in the situation of the quarantine, and we have the strong e-commerce, and did you capture that through your apps? And can that somehow maybe impact this recovery of the shopping malls, thinking more in the medium and long terms? These are my questions.

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

Well, I think that it's -- your question is the return of the people, how people will react returning to the malls. I will say that people have a lot of -- they're anxious to go back to the malls. People are asking that normally -- that the normalcy comes back. And I think that people will -- are -- they -- the purchasing via e-commerce is insignificant comparing to what people buy at the shopping malls. Of course, food, essential goods or -- it's helpful for that e-commerce. But evidently, the shopping mall is not just a place that you go to buy things. It's a leisure meeting point, you have other activities, other services, and people are deprived of an environment where they are used to living together for many years.

For example, in Rio de Janeiro, the shopping mall is the first option. Before it was the beach in Rio. Now the first option is -- the first option, the people go more to the shopping mall than the beaches. And there is a safety issue, security comfort, you can park your family, you have equipment for children, for adults, for the whole range of the population. And we are more and more concerned about integrating nature. Therefore, the shopping malls are an extension of people's homes. And I think that it will come back very -- in a very good fashion.

Of course, we will have people that are unemployed, more people that are unemployed. We have to really focus on that. I don't know if the political aspects will solve this issue. Well, there will be a lot of unemployment and people will not be able to buy some more - - so much. But if you compare to Plano Collor in the 90s, the economic plan, the sales dropped in 40% from -- that was overnight. But a year later, we recovered and we grew a

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lot. And we anticipated that growth. We've gone through many, many crises. The Sarney government, 1964. But all the crises that we've gone through, we survived, we progressed and we prospered, we recovered. In regard -- and the shopping malls are big hubs, big meeting centers, mainly in the cities where they are located. And we will be more intelligent servicing the needs of people.

I think that's it. I don't know if there is any other questions here, he asked another question I'm going to answer. If I can just complete here. I received, well, one of those jokes that you get from -- well, you know the Jetsons from the future and it read, I never thought that I would see that the Jetsons would be unhappy. We saw all those screens. Everybody would be communicating through the screen, but people are unhappy in a Jetsons world, such as the one that we are living today. Well, but now once the pandemic is done, the social contact will be reestablished gradually. And it will not be overnight, but this will be gradual. As the reducing in the value of rent, we analyzed a lot of strategies, and we've focused on how to help the shopkeeper at that time. And we did the most adequate job, and we are very satisfied with our results. We are not providing the numbers, but we believe that the results are even better than the strategy really had designed. So I'm sorry that I'm not giving you the correct number as we are used to doing.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you. Thank you, Armando.

Operator

Now the next question will be from Victor Tapia from Bradesco BBl. Victor?

Q - Victor Tapia {BIO 20566083 <GO>}

Good morning. First question, in regards to the linear rent. Well, you had a jump in the quarter and I wanted to understand a little bit more about that and what is the impact of that up ahead. Second point, I wanted to know about the turnover. Well, we saw the ParkShopping Sao Caetano and Ribeirao, there is a turnover that is very high, relatively high. Is there any physical issue? And is the shopping mall going through some changes? Is there a segment?

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

Can you repeat the two malls, please? Turnover.

Q - Victor Tapia {BIO 20566083 <GO>}

The ParkShopping -- ParkShopping Sao Caetano and Ribeirao.

A - Armando d'Almeida Neto

Victor, this is Armando. I think that its ParkShopping Brasilia, it's not Sao Caetano and Ribeirao. If it's both, then we are saying the same things. What I'm saying is that we have an allocation of rent of a lot of space, real estate, and we concluded successfully at the end of the year. And we had a good moment, and we saw the numbers at the beginning

of the year. In regards to linearity, there is no news. It continues and we account in rent in that way, we are comfort to rent in that way. And what happened was a contractual change. It's not something conditioned. I'll give you a discount and you pay up ahead. No, it's not that. What we effectively did is a change in the contracts for that month, specific month, and it will be done monthly.

Q - Victor Tapia {BIO 20566083 <GO>}

And what is the effect of that?

A - Armando d'Almeida Neto

Well, it's in the contract, the average lifespan of the contract. I don't know, two, three years. So five years is the average, 30 months, 30-36 months, we have shorter contracts. We have longer contracts, but it will be in the lifespan of the contract that you will recognize these reductions that were done in the contract. I don't know if I explained exactly or do you have any other points.

Q - Victor Tapia {BIO 20566083 <GO>}

It's clear. Until 2021, the average. And we will see a greater variation.

A - Armando d'Almeida Neto

Thank you. I cannot give you a precise number. We are -- we have 5,800 contracts for the shops, and we do the math for each of these stores. And we -- I gave you an educated guess, but you're not going to have something that is longer or shorter. I mean, obviously, if you have a storekeeper that leaves along the way, then they have deadlines to leave. But once again, we are following an accounting practice that the company adopts. So can we continue, Victor?

Q - Victor Tapia {BIO 20566083 <GO>}

Sure.

Operator

The next question will be from Enrico Trotta from Itau BBA. Enrico?

Q - Enrico Trotta {BIO 16742911 <GO>}

Good morning. Good morning, Armando. I have a few questions. The first one on Cambauva. I wanted to understand what is your plan to reopen the shopping malls in May. I wanted to understand how is the talks with the municipalities, the Mayor's office? What are the assets that you think you can reopen in May? And you will open gradually. This is a dream from May 10, but what are the talks that there are some things of delaying that data. So if you can tell us a little bit about the talks that you had with the public authorities. And we -- I wanted to understand how the flow went on the -- shopping malls are already opened. And also in digitalization, if you can comment on what are the initiatives with delivery centers and the apps that you have. With Multi, we saw some of the sector that

are trying to digitalize the shopkeeper. And if you can comment a little bit more on that, that would be interesting.

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

Well, I'm going to ask Vander to comment on the reopening plan, then I can talk about the other -- the other initiatives with the franchise.

A - Vander Aloisio Giordano {BIO 21228825 <GO>}

Well, this is Vander, Enrico. Thank you for your question. We hired an infectologist to really guide us about what are the procedures here that we can adopt once we open, because our biggest concern is to -- at this time, to assure the safety of our customers. Therefore, our shopping malls will be very well equipped, very well prepared. As it was previously described with the availability of hand sanitizer, the use of masks, ventilators, the air circulations, well, we have several protocols that we are adopting, and these are based in studies, technical studies, really.

In regards to the reopening, now today, with data with Abrasce, we have 62 malls up until yesterday or the day before, and we will possibly have until Monday, 73 malls open in the country. So this process of opening, it occurs, it takes place in a very regional way. And it depends on a few places where the technical indexes highlighted by the Ministry of Health are correct and the mayors noticed that they're reopening is possible. It's very difficult at the time to predict what -- what these places are because you have an issue of the government, the relationship of the government and the municipalities. But I would say that Brasilia is in advanced stages of opening, and we did a protocol. The company even made available a drive-through of quick tests for the pandemic. And in Brasilia, we have an issue that is very evolved. Certainly, we are ready for this. And we are following the trends of the sector.

Let's continue. And about the issue of the delivery center, the Multi, the franchise owner, I think that this is a very good first. Well, we have Multi working since July, August last year in a very initial way with a lot of success. And we had an enormous amounts of downloads from the app because of the Christmas shopping. And we -- well, the fact that we have Multi, the app, it's a very difficult moment right now, but we can help the Easter sales. And we specifically went through that -- we went through Easter and Easter -- lost our functionality after Easter. And now we have over 450 requests via the app for these products.

And more so is the relationship, operational relationship. And also in the partnership that we have the increase in capital at the end of January, starting February. And this was done by developing the investments of the delivery center. This is strongly done, increasing not only the shopping malls, but more important than that, we increased the importance -- how important it is inside the shopping malls and we multiply via Multi. We wanted to leave, well, not really just selling the food, people eat 3, 4 times a day. And they don't buy durable goods or clothing every day, but they do eat every day. And what we achieved in this period is a very increase of adherence, not only of food products, but also other products. This is along the line that we are working right now. And this was accelerated in that sense, which is very positive.

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Well, two issues here, retention. First, the concept that by the privileged localization of our shopping malls, you can reach the house of the consumer very quickly, increasing the satisfaction levels at the time that the consumer cannot go to the shopping malls. So the biggest experience is in the shop and touching the goods, the merchandise, but also convenience is good. And you have a reverse logistics in the shops that is fundamental, I mean at any moment it is fundamental, but at this moment is paramount.

Another point is here, Daniel sent a very opportune message. Well, usually, the strategy of e-commerce is done by the franchise. They control the activity, while the franchiser controls the activity and the franchise, well, they can also work with our app, and they can integrate the logistics. And this really helps the franchise owner when we are also taking into account the healthcare of the owner, the shopkeeper. Any other point? Or anything else that you would like to talk about?

Q - Enrico Trotta {BIO 16742911 <GO>}

No, this is perfect. Thank you, Armando. Thank you to Vander.

Operator

Very good. The next question will be from Nicole Inui from BofA, Bank of America. Nicole?

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning. Thank you. Two questions. Will the expenses here for -- what was done to decrease these expenses for the condominium? And also I wanted to understand, well, you -- the discount of the 50% of the condominium that you're giving to the shopkeeper, I mean, the -- how will you cover the difference of what they are paying and really what you need to pay for the condominium? And another final thing about the reopening. Just to understand a little bit more. Well, inside of the shopping mall, what will open? So everything will be open, the food court, restaurants as well? Or do you have a plan to open the main stores, then the cinemas? I just want to understand how will the reopening take place.

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

Nicole, this is Jos? Peres. It's a pleasure to talk to you. We established, at the beginning, with ABRASCE, that the shopping malls would start to work just enough. And they would work from noon to 8:00 p.m., and they would leave the shopkeeper with really two working periods. This is to collaborate with the recommendation of the healthcare authorities of the country to decrease the flow of people. So if you work half of the time, the flow drops by 50% almost. So they're going to work a little bit more than that. And we will even -- evidently, we know that this is the people want to go back to their normal lives, have their activities going and going to the shopping mall as part of the daily life. I think that there is a repressed demand here. And in regards to the issue of control, we have the control of the people -- the entry of the people to the shopping mall. So it's better than the shop, the shops that are simply on the street. We can control the flow of people in the shopping mall.

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So parking lots, sometimes the parking lots are full, probably during the weekend they will not be full. They will work half to keep a lower flow of people, lower volume of people. And we have a protocol for hygiene, testing the temperatures of the customers, the use of alcohol, the masks. And we are evidently -- well, things are just -- we have a general pandemonium here in Brazil. And the news, they display that issue is very dramatic. And I think that what people feel today is more panic caused by the press, but they're more panicked about staying at home, but the governments think that this is great. But we understand that when we come back, the comeback will be with a lot of desire to go back to the normal life, because you're arrested, you are in jail for 60 days. The will of the individuals to have freedom and leaving is so high, and this exists in regards to the consumer that goes to the shopping mall, that likes to meet up. And I think that we will have to control this repress demand so that doesn't bring a lot of consequences. I don't know if I answered everything.

A - Armando d'Almeida Neto

I just wanted to talk about the condominium expenses. I might be wrong. But I do not recall seeing a reduction in the condominium that was so big as the one that we proposed to 50%. And that's why I mentioned value with pride at the beginning that we acted very quickly. Once we saw that during the Carnival, that environment was worsening, what we prepared was not a reduction of 50%, we're reducing 20%, and we imagined that the environment could reduce, drastically, the flow at the shopping malls. And that was worsening in the first weeks of March, so we leveraged that to reduce 50% of our expenses. We reduced the condominium expenses in 50% and other expenses. And some contracts are quicker, some are faster, but we reduced the expenses at the condominium that can transfer that as a result to the storekeeper with lower brand, really.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you.

Operator

The next question will be from Andre Mazini from Citibank. Andre?

Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Good morning, Peres, Armando and everybody. Two questions about specific issues. First, the expenses, the assets and they dropped, and I just wanted to know -- well, there was a reversal in the IPTU rate. And it was 34. It went, well, up ahead, it's going both ways. The expenses of rent, there is also the new acquisitions. But on the other hand, you have -- you have to be conscious of costs. I understood that we have to be very versatile. Well, given those two issues with the IPTU charge.

And the other point that was already mentioned, from what I can understand, the linearity it tends to reduce the volatility in the revenue, now at the end of the March. So you don't have a really big drop in the revenue and then up ahead it might be a little bit negative just to keep 0 on the term of the contract. But thinking about the second quarter, since you're going to give discounts, because the numbers will be more severe in the second quarter, will we expect that the linearity will continue to grow more than the first quarter?

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

Andre, let me start by linearity because it's easier. Let's start backwards. In March, we charged half of the rent. In April, we did not charge the 100% of the fee. So obviously, if we stop there, I would expect that the impact in linearity will be higher in the second quarter than the first. You are absolutely correct. Linearity is a sum 0 and what you are recognizing is the negative up ahead. Okay. So the sum of that is 0 in the life of the contract. And as I answered in a question earlier, if the shopkeeper knows the way they will recognize that.

Now the shopping expenses. I have a different view from here It's not nonrecurring factors that made the shopping expenses to drop -- to increase -- to decrease. It would decrease regardless of nonrecurring costs. And when we talk about -- I'm going to go back to the recurrent, but when we talk about the shopping expenses, let's think that you have a next amount of important expenses, marketing, legal costs campaigns, stores that are open that are not rented and also what you do not sell. You have the provisions there. And in this quarter specifically, we had, first of all, an increase of ABL, well, I think it was 28,000 square meters added to our assets, 29,000 extra square meters of areas at the end of the quarter -- at the end of quarter of '20, if you compare it to the first quarter of '19. And that would increase the shop expenses, but we were working to doing a small provisioning and decreasing and being more efficient.

And therefore, the expenses with the shopping with drop in my mind, just doing a quick math, more than 10% -- 10 or more percent. And here, you have an effect that was the recovery of expenses, not only in the taxes IPTU, utilities as well. And this is very good because we can recover and be efficient. And the second point, we talked to the CBM, the Brazilian SEC, so we can be more conservative in regards to these provisions. And then we had an increase in the provisioning and due to the impact of COVID to have a more conservative posture. These are the two non-recurring points and even so we had a result of reducing the expenses doing, what I told you, more than 10%, now dropping to 16% and maybe 10%. Did I answer?

Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Yes. Thank you. So you're talking about the future expenses?

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

Well, there, my friend, it's difficult to do anything. I always had a very predictable cash flow with high margins, but things are more difficult to predict. We have high margins for this quarter. We had exceptionally high margins, but we have to see the vacancy, the provisions and remembering that the condominium costs as part of this, while the second quarter will be lower, will play a smaller part. But it's difficult to do right now any prediction really.

Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Thank you.

Operator

Very good. Next question will be from Bruno Mendonca, Santander. Bruno?

Q - Bruno Mendonca {BIO 16313094 <GO>}

Good morning. Thank you for the question. Well, a great deal of my questions have been already answered. Maybe a last one to get your feeling as you commented, Armando, about vacancy. Well, the scenario is this regrowth from the standpoint of, well, the retail sector, how do you see the financial healthcare of the shopkeeper? I know that Multiplan is doing everything that you can to give oxygen to the storekeeper, but you are line, a cost of that every shopkeeper has.

So the question is, how do you perceive how is the shopkeeper, the store keeper dealing with this from the standpoint of stock? Would this regrowth will not be as accelerated as you expected, because of the way that it will have to rebuild their stock, some sectors will be more sensitive than they might have lost? Well, how much Mother's Day is relevant to some shopkeepers?

So that's the question, if you can give us a little bit about the sectorial predictions. I mean, a restaurant is very different from an apparel store. But I've tried to think about how much the shopkeeper can follow-up on the regrowth from the breadth standpoint, since you're giving them oxygen so that they will leave this crisis running, let's just say. Well, this is a train of thought, but if you can try and answer that?

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

Jose Peres here. You're asking us to do an exercise in futurology. So it's difficult because I don't have the crystal ball here. But what I can tell you is, of course, that retail sector and wholesale is affected, the big not so much, the medium less. But with the shopping -- being a shopping center, we will go to the aid of the shopkeeper, giving credit as much as we can from the standpoint of their stocks and their labor and everything and the other -- well, everything will depend on the flexibility of the banks, how the banks will deal with that. Because from what I can hear and what I've heard is that credit, everybody says that everybody has a credit, but when somebody requests a credit they tell them, they request a lot of guarantees that they cannot provide result, as I am concerned with the issue of the cash flow of the shopkeeper.

This is an issue that the governments should really look at this, mainly the municipal and state governments because they will lose a lot here today as well. It's possible that we will lose, but what we are saying is millions of people that depend on this activity, commerce and services, including industry, because the industry does not produce 50 commerce and services to not produce a part. Yes, every business works, but the rest does not work. The country has stopped. I think that credit right now is fundamental. And you guys are from the banks. You should help because in practice, you're talking about small storekeepers and they had a lot of difficulties in obtaining credits to keep the employees to survive during this period.

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So I would say that we will go through a moment that is more of a bottleneck. But I think that July, September, activities will regain their normalcy. And it will depend a lot on the neurosis of the governors. A lot of them talk about absurd numbers. It seems that everybody just ties of Coronavirus. And evidently, the disease has been politicized, what shouldn't have happened. The state municipality -- well, Brazil is a poor country that made available BRL1 billion to help. And on the other hand, you have a president that cannot work, they don't have any powers. The Supreme Court doesn't do anything because the Congress doesn't do anything. But regardless, we've gone through many crises, our bases are solid.

Our real estate are located in the best spots in town. The buying at the shopping malls is what people want to do. Buying through e-commerce doesn't ever represent 10% of what the shopping mall represents. Today, people are more concerned about buying food, remedies, and medications. And of course, this is the -- people are short -- the public administrators are shortsighted not to see unemployment as really a side effect of this disease.

And you were talking about vacancy as well. Here, just so we can think alongside with you. It's natural that you will see the portfolio of the store owners. They will have to close stores, open new stores and seeking, in my opinion, is places of high productivity is a very well-known effect in the markets, and this is applied in the shopping center sector. Well, it's not where you -- how much rent you pay, but where you can sell a lot. And the properties that have a high productivity, they will present a very different behavior from others that have low productivity. An example is seeing how the last five years in Brazil were in an economy that is still difficult suffering and we still increased our sales in rental revenue, even though we went through a very deep crisis recently. And this was the first quarter in the story of the company since we were listed, that we could present -- that we couldn't present the rental revenues, and we had a very good management model that could back us up.

Q - Bruno Mendonca {BIO 16313094 <GO>}

No. Thank you very much.

Operator

Very well. The next question is from Jorel Guilloty. Jorel?

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning. I have two questions. I wanted to understand the capacity, your capacity to give more discounts in the rent up ahead. In your balance sheet, you have BRL1.1 billion in cash, but you have BRL350 million in amortizations, BRL150 million in interest rates over capital to pay at the end of the year and BRL150 million, BRL250 million in CapEx. So I wanted to understand if you have capacity to give more one, two, three months of discounts on the rent. How do you think about that?

And second question is about parking lots. Well, going to the shopping mall is a challenge. A lot of people are getting into an Uber or a taxicab and they do not use the parking lot.

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But now with COVID, more and more people go to the shopping malls in their own cars. So I want to understand how are you thinking about the parking lots, specifically, because before you're talking about the possibility of increasing distribution in the parking lot. So that said, how do you think about that?

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

Well, first of all, it's not the way that I dream of seeing interest rates at 3.75%, but this is the only way that we can face this crisis with a financial cost that is cheaper. In the previous earnings call, well, it was the fourth quarter last year, we said that we had the leverage of the company growing because you have more beneficial interest rates than in the past. I think that there is an amount of credit that is available in the market, it's enormous. The credit -- this is a credit that I like the most, no, because of price, because of deadlines. But we can have access, yes, to money if it's necessary, and if it's our desire to have a financing. We're having more effective help.

Of course, if you do not open your own work, everything has a limit. But this is a scenario that I think that is the most probable for it to happen. In regards to the parking lot, I mean, I understand it before you commented about the parking lot suffering because of the effect of the uberization of transport. And now there are people that think that the parking lot can grow because people are driving more of their cars. It wasn't that negative, and I'm not so positive as you are stating, if I understand correctly your question.

Q - Jorel Guilloty {BIO 18291521 <GO>}

My question is, initially, people didn't drive their cars a lot.

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

Well, yes, this is what I think people are going to go to the shopping mall less. Yes, this is - well, we will have two, three months and this is going to go back quickly and people understand that life is business as usual, normal. I mean things are going to return to normal. What is dramatic is the loss of employment, loss of stability, financial stability. I wanted to show you a number. Well, let me see if I find it.

Do you remember the number by heart? Well, I saw that last year and until February, we had a growth of 1.2%. Indeed, these last few months. Regardless, what my point exactly is that parking lot grew regardless of the effect of uberization -- the effect of the uberization of transport. And I think that certainly, we will have more people driving on their own cars because they want to take care. But I also do not see on the shortest term the regain of people not driving. Throughout the month, this is going to happen. And maybe we will have a growth in parking lot traffic. And consequently, we're going to have more revenue for parking lots.

But a big factor that helped the parking lot revenues, because over the last 10 years we can show you, it wasn't just the growth of the number of spots where shopping malls with more car parking lots capacity or the tariffs because -- and also the increase of times at the shopping mall, we saw an increase of the time spent at the shopping mall. It was one

hour and then it grew and it went over two hours. That generated a growth in the revenue of the shopping malls. That was expressive in this ten year period. Okay?

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you.

Operator

Very well. We now close the Q&A session. Let's return the floor to Jose Isaac Peres, the President, to the final considerations. Mr.Peres?

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

Once again, I would like to thank you for your attention. I'm sorry that I cannot be more optimistic in my provision, my predictions, but I have a good news that this will return to normalcy. People are anxious to go back to their normal life. There is an enormous repressed demand, and obviously, protection and safety, we will provide safety for the people. You can be certain that things will come back to normal. People do not change. And it's been million years that we are gregarious beings. We lived in caves and we still live in a modern cave. So we will continue to first be human beings that regardless of the technology that surrounds us, we -- the feelings are the same and impulses are the same. And I believe that we will go back to normal. Thank you very much.

Operator

Very well. Now the earnings call of the first quarter of 2020 at Multiplan is closed. Thank you very much for your participation and have a wonderful day.

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