

## Q4 2013 Earnings Call

### Company Participants

- Carlos Medeiros, CEO, Vice Chairman of the Board, Member

### Other Participants

- Guarelle Galachi, Analyst
- Sam Lieber, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and thank you for waiting. At this time we would like to welcome everybody to BR Malls conference call. Today with us we have the CEO, Mr. Carlos Medeiros and the CFO, Frederico Villa.

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. After that there will be a question-and-answer session for analysts and shareholders, followed immediately by another session for journalists.

At that time further instructions will be given.

(Operators Instructions)

Today we have a simultaneous Webcast that may be accessed through the Website, [www.brmalls.com.br/ri](http://www.brmalls.com.br/ri). The slide presentation may be downloaded from that Website as well. There will be a replay facility for this call on the Website for a week.

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of BR Malls management and on information currently available to the company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operations could also affect the future results of BR Malls and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Carlos Medeiros, who will begin the presentation. Mr. Carlos Medeiros, you may begin your conference.

## **Carlos Medeiros** {BIO 15324538 <GO>}

Good morning. Thank you for participating in our conference call for our Fourth Quarter 2013 earnings release. As we have done in previous calls we will quickly go through the highlights of the quarter and then we will open to any questions you may have.

As we have done also on previous calls, we have available on our Website a brief presentation that you can follow during this short summary of the results.

In the Fourth Quarter of 2013, our net revenue grew by 12%, reaching BRL376 million. For the full year of 2013 our net revenues reached BRL1.3 billion with a 16% growth over the previous year. Our NOI in the Fourth Quarter reached BRL353 million increasing 12% from the same period of last year with record high margin of 92.5% in the quarter. We ended the year with an NOI of BRL1.2 billion and an NOI margin of 92%, growing 17% year over year.

Our adjusted EBITDA reached BRL324 million in the quarter increasing 21% over a year ago. Our adjusted EBITDA margin reached 86% end of the quarter also, one of the highest margins the company has ever reached.

We ended 2013 with an adjusted EBITDA of over BRL1 billion growing 16% over 2012. Our EBITDA margin for 2013 was 81%.

Our adjusted FFO in the quarter reached BRL149 million, growing 22% over the same period of last year. For the full year of 2013, our adjusted FFO reached BRL497 million, growing 18% year over year.

Our same store rent for the quarter reached 10.4% and for the full year 9.8% while our same store sales grew 8% in the quarter and 7.5% year over year in 2013.

In October of 2013, we opened the expansion of Rio Anil which added 6,000 square meters of GLA to our existing portfolio. We also opened in the quarter the expansion of Sete Lagoas which added almost 2,000 square meters to our portfolio.

Also in the Fourth Quarter we announced the opening of Shopping Contagem our ninth greenfield project adding 40,000 square meters of total GLA to our portfolio.

After the end of the First Quarter end in 2014 we finalized all of our debt restructuring that we started 18 months ago with issue of a CRI or a mortgage-backed security debt in the amount of BRL400 million. Also in 2014 after the end of the Fourth Quarter of 2013, we sold a 49% stake in Ilha Plaza Shopping Rio de Janeiro and also our full stake, a minority stake in Shopping Patio Belem in the State of Para, both sales we have achieved a very high IRRs in real terms.

With that we end this summary of our results and we are open to any questions you may have. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now initiate the question-and-answer session.

(Operator's Instructions)

Your first question comes from (Guarelle Galachi from Morgan Stanley). Please Mr. Guarelle you may proceed.

### Q - Guarelle Galachi

Good morning, I had a question on the development underwriting for two of the three projects that you have in the pipeline. Specifically on (Vila Velha) and Cascavel, so I compared the projected IRRs for both projects, between 3Q and 4Q and I saw for Vila Velha it went down 190 basis points to 17.9% and that the IRR for Cascavel declined 100 basis points compared to what you had in 3Q. So I was wondering what drove that decline for both of those projects and also why Cascavel was pushed back by three-quarters to 2Q 2015 in terms of the delivery date. Thank you.

### A - Carlos Medeiros {BIO 15324538 <GO>}

Hi good morning, regarding Vila Velha we adjusted the return based on the two-month delay that we are going to have to open this project. The reason for that is that we have had a general strike in general construction in the State of Espirito Santo last year, which would delay the opening for about 70 to 80 days. Then the mall would open during the World Cup, which was not a good idea, so we decided to postpone it to the end July so that has had a small impact. But having said that we still have a very high IRR in that project of around 80% in real terms.

For Cascavel the date that we have had was just a preliminary date because we have not started construction. We just recently have received the approval to start construction. Now we have a better idea of the date that we will be able to open that project which now stands at the Second Quarter of 2015.

### Q - Guarelle Galachi

Okay and then also I guess your view the decline in IRR projections for Cascavel?

### A - Carlos Medeiros {BIO 15324538 <GO>}

Yes. That's true. But I mean, Cascavel, we bought this project as a portfolio of assets, when we brought the portfolios in this house. So we looked at that as a whole portfolio not individually and the whole portfolio still has returns above 13% in real terms in total.

## Q - Guarelle Galachi

Okay and I actually had another question. And this concerns your same property NOI. So we saw that it was 8% year on year in the Fourth Quarter, versus 12% in 3Q and 20% in 4Q 2012. So I was wondering if you can comment on the difference between those same property NOIs.

## A - Carlos Medeiros {BIO 15324538 <GO>}

Yes, I mean, if you looked at the number without the straight lining in the Fourth Quarter it is closer to 11%, but when you look at the number with the straight line it reaches 8%. So we had the effect of the straight lining up of rent causing a negative impact in the Fourth Quarter in general.

## Q - Guarelle Galachi

Okay. Thank you.

## Operator

Our next question is coming from Mr. Sam Lieber of Alpine. Please Mr. Sam you may proceed.

## Q - Sam Lieber {BIO 1758112 <GO>}

Thank you, greetings Carlos. Certainly good numbers for last quarter through the end of the year. But I would wonder if you would comment on just the trend you have seen over the last couple of months, especially in light of the at least official numbers for retail sales that were announced the other day? (Multiple speakers) official numbers.

## A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Sam good morning. I understand you are asking about same sources for January and February, right?

## Q - Sam Lieber {BIO 1758112 <GO>}

Correct.

## A - Carlos Medeiros {BIO 15324538 <GO>}

I think it is very complicated because in last year we have had Carnival in February. This year we had Carnival in March. So we had a strong February, we had an okay January and a strong February. We need to look at March numbers because again, there is a Carnival effect there. So it would be more appropriate to look at the Third Quarter numbers as a whole because of the difference in the calendar. But overall we are seeing a trend similar to what we saw in the First Quarter of last year.

## Q - Sam Lieber {BIO 1758112 <GO>}

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Okay then the tone among the retailers. Certainly we have seen the earnings reports from different retailers and we know that there is some stress out there. But again that includes a lot of properties that are not necessarily yours, not necessarily in the major shopping malls are reflected in those overall tone of reports and I am wondering if you could comment again how your read of the store operators is at this point in time? Of their mood if you want to call it that?

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**A - Carlos Medeiros** {BIO 15324538 <GO>}

We haven't seen a change in their moods this year compared to the second half of last year. As you know the publicly traded companies have had a slowdown in same store sales overall for last 12 months. But we are not seeing further slowdown or we are not also seeing them cutting back on expansion plans. At least what we have been hearing from them. And on the contrary we keep seeing more investment in the sector. Just yesterday there was the announcement of a 20% acquisition of one of the large anchor stores in (inaudible) more focused on the mid-central west of Brazil, which is a recurrent theme. We keep seeing more and more private (caps) so invest in retailers with the objective of growing those platforms. So we do see a lot of interest from investors in the segment and we also continue to see retailers wanting to grow, wanting to expand so we haven't seen any changes on that front.

**Q - Sam Lieber** {BIO 1758112 <GO>}

Well that is comforting, Okay. We will keep an eye out on the next month and see how performance looks, and again we appreciate the solid numbers through last year and look forward to more.

**A - Carlos Medeiros** {BIO 15324538 <GO>}

Thank you, Sam.

**Q - Sam Lieber** {BIO 1758112 <GO>}

Take care.

**Operator**

(Operator's Instructions) This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Carlos Medeiros and Mr. Frederico Villa for any closing remarks.

**A - Carlos Medeiros** {BIO 15324538 <GO>}

Thank you for participating in our Fourth Quarter 2013 earnings results. We are available for any further questions you may have here with our Investor Relations department. Thank you very much, bye.

**Operator**

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Thank you, this does conclude today's presentation. You may disconnect your line at this time and have a nice day.

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