Multiplan

Conference Call Transcript
3Q07 Results
Multiplan
November 13th, 2007

Operator:

Good afternoon. Welcome, everyone, to Multiplan's 3Q07 earnings conference call. Today with us we have Mr. José Isaac Peres, CEO; Mr. Mário Augusto Nogueira de Paula, CFO and IRO; Mr. Marcello Barnes, Development Officer; and Mr. Hans Melchers, Planning and IR Manager.

Today's live webcast and presentation may be accessed through Multiplan's website, at www.multiplan.com.br/ri. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Multiplan's remarks, there will be a Q&A session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events, and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Isaac Peres. Mr. Peres, you may begin your conference.

José Isaac Peres:

Good morning, and I apologize because I cannot speak English very well and I asked Marcello to translate to me. Marcello has good, fluent English. So I speak in Portuguese and Marcello will translate. Thank you very much.

Marcello Barnes:

I would like to thank you for being here with me for the second time, in this conference call, and I would like to confirm some data that you already know about Brazil. In our sector the consumption is increasing, growing very rapidly, and we achieved this year a growth of 14.2% in our sales. We are very optimistic regarding Christmas and we expect to end the year with an increase higher than 14%.

The Company follows its strategy to develop new projects and to focus in own malls. We would like to emphasize that our new malls under development were very well accepted by the market. A clear example is Barra Shopping Sul, located in Porto Alegre, in South Brazil, where we achieved more than 90% of signed contracts. We will be opening this mall in August next year, with 65,000 m^2 of GLA.

We are also developing Vila Olímpia in the neighborhood of Vila Olímpia in São Paulo; which also had a very successful response in the market, and we will be opening this mall in April 2009.

During this quarter we acquired several parcels of land to develop a new office and malls, and we also anticipated several expansions in our malls. The main highlights for this quarter are the increase, the growth of the gross revenues, of 39.4% compared to the 3Q06; we decreased the headquarter costs by 31%; adjusted EBITDA for this quarter increased 57% when compared to the 3Q06; and the profit increased almost 69% when compared to the 3Q06.

We are now under negotiation of several lands for future developments and we expect to comment that with you in the next quarter. We have actually zero debt, and we have cash available of R$430 million, which gives us potential for considering the leverage capability of the Company more than R$1 million.

Our acquisition strategy will always consider the good quality of the projects, which brings a very strategic value for the Company and brings a very good growth potential.

I will be available to answer your questions at the end, and I now I will pass to Mário, who will present you the main figures of the Company.

Mário Augusto Nogueira de Paula:

Good morning, ladies and gentlemen; good afternoon. We thank you for joining us for Multiplan's 3Q07 earnings conference call.

Please turn to page four of the presentation so we can move on.

On page four we present "Who we are". We are leaders in the sector comparing gross revenues. We present you the 3Q07 numbers comparison with our peers, the public ones, and Multiplan is first positioned in the comparison.

We focus in key figures. One of them gross revenues, the other one is profitability. Profitability is derived from the quality of the shopping malls that we currently have in our portfolio. We present you here the 3Q07 rents per m^2. We have a very premium position, that we are collecting at R$216.25 per m^2, which is a premium figure for us. We are focused in the same way in the return for the investment and for the shareholders and the risk of execution. In terms of returns we are aligned with IRR for green field projects, real terms and leverage over 15% in the year, and considering expansions that we are now doing in four of our malls, we are targeting IRR leverage in real terms over 20%.

Multiplan is in the same way focused in multi-use projects. We have now Barra Shopping Sul, we have a very interesting position, Marcello will present at the end of the presentation. And everything leads us to a low-risk execution considering that we have a higher interest position in our properties. If you pay attention at the chart, we have 64% of average in our properties, considering that we have 90% over 50% of control, which gives us the capability to exercise our management over the property. This is a differential that counts for Multiplan.

If you turn to page five, we present the portfolio of the Company, and there are some interesting points here.

The Company is focusing its strategy in the South and South-East of Brazil, that is where the growth per capita is mainly placed in Brazil, and we have 76% of the Brazilian GDP concentrated in this area. So, we are focusing in this strategy.

We present you here the occupancy rate around 97.5%, really non-existing, because the 2.5% is purely operational and considers changes in the mix of the malls. And we have two malls under construction: Barra Shopping Sul, that will be opened next August 2008, and Vila Olímpia, as Marcello mentioned.

If you turn to page six, we present you the cycle of high returns of our leading shoppings.

Considering that we collect high returns over the same store rent concept, regarding the 3Q07, we are experiencing 10.6% growth in this ratio, which is really impressive. We have capability of investing more in our malls to attend the demand of the tenants.

In an original basis Multiplan launched 249,000 m^2 of GLA, which was increased along the time by 45.7%, leading us to a position that comes up to 362,000 m^2.

Within this growth we provide higher attraction power, more brand awareness for Multiplan and we are capable of attracting international tenants representing mainly the most bigger chains of retail, like Fnac, like Starbucks, like Outback, Zara and when they look after Brazil, they place the first partnership in our malls, with Multiplan.

And considering that they are premium tenants, they moved after higher sales. In a same store sales basis we present you a growth in this quarter around 14.4%, which leads us to a position of almost R$3 billion in sales accumulated in 9M07.

If you turn to page eight, we present you the financial highlights for Multiplan. Our gross revenue increased almost 40% considering a quarter-to-quarter basis, and we achieved R$93 million for the 3Q07. Aggregate in 9M07 we have a growth of around 38%, leading us to R$256 million.

Headquarter expenses were really diminished. We reduced this as an effort of getting more efficiency for the Company along systems and processes, and we are focusing in this as a driver.

EBITDA and adjusted income, as presented below. EBITDA increased 60%, rising to R$143.9 million in 9M07 and almost R$49 million in this quarter. In adjusted income we have the same figure; we increased more than 100% year-to-date and we grew 69% in a quarterly basis, up to R$40 million as adjusted income.

On page nine we have the operational highlights for Multiplan malls. We present in the down portion on the page the same ratios that we presented in the beginning, the same store rent and same store sale, to emphasize the commitment of the Company within this profitability. We grew 10% for same store rent, and what is comprising a good ratio for 14.4% sales growth. And in terms of revenues, considering only shopping revenues, that is minimum, overage or complementary or percentage rate plus kiosk, 19% in the quarter-to-quarter comparison, arriving at R$94 million, and in 9M comparison we are growing up to 15%.

On page ten we provide you a breakdown over the gross revenues. As you can see, Multiplan is a shopping mall-oriented Company. We collect 91% of the revenues deriving from shopping centers and 9% from real estate projects that we run besides our properties.

In our breakdown of the shopping rent we have merchandising revenues of 11%; minimum rent or base rent around 84.4%, and overage or percentage or complementary rate of 4.4%.

In the lower portion of the pie you have the breakdown by mall, and you can see the three major malls of Multiplan are Barra Shopping, Morumbi Shopping and BH Shopping as the bigger ones. The other ones are following the same on the track.

On page 11 we present you another breakdown of the adjusted EBITDA. As you can see, EBITDA was pushed by figures deriving from shopping, parking, development, equity pick-up and other results that, at the sum, all of them are arriving to 57.7%, leading us to adjusted EBITDA of almost R$49 million in this quarter. And we will let you know if the margin per our activities considering and margin for shopping, parking, real estate, development, as an overhead that we stated over the other one, and Multiplan's average margin EBITDA is around 57.5%.

On page 12 we see the indebtedness of the Company. The Company is very capitalized at this moment and prepared for accomplishing the IPO user proceeds commitment.

We have indebtedness over the 3Q07 of roughly R$42 million that is mainly derived from BNDES, the local Development Bank. It is very attractive, and we have a timeline for amortization that is presented in the left side portion.

We have in cash right now R$432 million, that is presented in the 3Q07, and we have more capability for new debt, extra debts, which lets us invest over in excess of a billion.

On page 13 we have the capital market Multiplan performance since the IPO. We launched on Bovespa on July 27th, and since that time we increased 6.8%; considering Bovespa increased 14%.

Next page, 14, we see the capital market along the same period of time; our peers, all four public companies. Multiplan with 6.8% growth; BRMALLS with 4.8% growth; General Shopping with 3.9% growth, all of them as aggregate, and Iguatemi with a decrease of 7.6%.

Now I will pass the floor to Marcello, whom will let you know about our growth strategy.

Marcello Barnes:

Hi, good morning again. In page 16, just highlighting again the main figures of our sector. In the top of the page we still have very low figures regarding the ratio between GLA and inhabitants in Brazil when compared to other countries like Mexico, Portugal and North America, Canada. Also, our market is still very fragmented; the three largest players here hold less than 10% of the GLA. Mall sales in retail is increasing a lot, it was in the average of 15% from 2002 to 2004, now it is almost 20%; and this 20% is a very, very low figure when compared to the United States and to Europe.

It is also being experienced in Brazil a very good economic, financial environment. Inflation has been under control for the last years. Interest rates are going down, credit is increased, income is increasing, and also malls are always a solution for the chaos in big cities. We are located in big cities. So, we foresee a very good growth potential for our sector in the future.

Turning to page 17, we have been focusing in low risk deals, trying higher returns. So, from the bottom to the top, we recently acquired the third-party owned mall of Pátio Savassi in Belo Horizonte, where we already own two malls. So, this was our third mall in Belo Horizonte, and we achieved an IRR of 15% on leverage real terms. We achieved an average of 16% in our minority partners acquisition; new malls, we are aiming to achieve between 15% to 20% IRR; our mixed-use projects almost 20% return; and the best part of the cake is always the expansion. So, we are expecting to achieve in excess of 20% IRR in our expansion.

So, in page 18, we said during the IPO that we would use our proceeds to acquire third-party malls, also to develop our Barra Shopping Sul and Vila Olímpia new malls, to expand existing ones, to acquire new lands, and use a little bit for working capital; and we did this in the 3Q07.

As a highlight for this 3Q07 we have concluded the Pátio Savassi acquisition, a mall in Belo Horizonte; also, we acquired land adjacent to our malls; and very important, we anticipated several expansions.

As we are showing you in page 19, today we own 252,000 m^2 of direct participation in our malls, and after our new malls and these expansions we can achieve almost 280,000 m^2. But as we anticipated, the expansions as shown in the bottom left part of the page, in 2008 and 2009 we are expecting the IPO to open new, additional 22,000 m^2 of GLA. Now we anticipated and we are opening in 2008 and 2009 almost 50,000 m^2 of own GLA, Multiplan direct-owned GLA.

At the right part of the page we are just showing that there is now a lot to develop. So, our initial GLA when we first opened our malls totaled almost 271,000 m^2. Today, after expansions, we have almost 400,000 m^2, and the future GLA after these several expansions and new malls will achieve almost 560,000 m^2 of GLA.

In page 20, also in line with our strategy, we have been acquiring land adjacent to our malls. We acquired land adjacent to Morumbi Shopping, and with this joint venture with Walter Torre… So, both lands will add almost 40,000 m^2 of land area, and we will be able to add almost 120,000 m^2 of GLA of a mixed-use project; we are planning to develop office towers and also a five-star hotel there.

Another recent acquisition, we made a deal in a land adjacent to Parque Barigüi, our mall in Curitiba, South Brazil, a 27,000 m^2 land that will be able to bring additional 18,000 m^2 of GLA either in expansion of the mall or in office towers.

And we have been doing this for the last years. At the bottom of the page, we have been doing several mixed-use projects for the last years, we did this in Morumbi, we did this in Barra, Rio de Janeiro, and we already approved several towers, office, residential and hotel towers in Porto Alegre, South Brazil, our new mall.

Page 20, a quick overview of our malls under construction. Barra Shopping Sul in September 30th was already 90% leased, 90% of the contracts were already signed, and up to now, November 12th we have almost 98% already signed. It is a record in our history, and I assure to you that it is a record in the whole market. One year before the grand opening we have almost 100% of the mall already leased. Shopping Vila Olímpia also had a great reception. We have now 35 contracts signed and almost 100% tenants' interest in leasing spaces there.

The last part of the page, just showing you that we had, as I said before, development in our blood. We did this for our nine malls, we only acquired a third-party mall, Pátio Savassi, and also we did not show it in here, but we also developed Cascais Shopping in Portugal, and these malls together almost sum 1.2 million m^2 of built GLA, constructed area.

Thank you, and Mr. Peres will give his final considerations for you.

Marcello Barnes (translating José Isaac Peres):

I would like to thank you for your presence, your attendance here, and we would like to reinforce that our strategy will always be to develop new malls from green fields, good quality malls, to pursue strategic acquisitions, but in line with the quality of our malls, and also pursue third-party malls that have huge potential for future growth but have not reached it due to bad management. We have been dealing with several important deals and we will show you that in the next quarter. At this moment we are not able to show you, to tell you the projects as we are under negotiations. We also need to consider that we became public only three months ago, and we also face a very volatile period of our stock market, and maybe due to this reason our stocks have not performed as we wished. You can keep your trust in the investment you did in Multiplan, for you will not be disappointed. Thank you very much.

Verena Wachnitz, T. Rowe Price:

Hi, good morning, congratulations on the sound quarter. I have two questions; one is on G&A expenses. In the next quarter; is this sustainable? And what level of expenses should we expect going forward? And also, are you providing any guidance in terms of EBITDA margins for the next year?

And in terms of guidance, are you giving any indications in terms of SFO that you are expecting for 2008 and 2009 based on the new schedule for expansion? Thank you.

Multiplan:

About the GLA expansion, you should expect that going forward in the future. We have now, as you see, R$13 million, and that should keep doing. What we had in the past was that we invested a lot of money in new processes, and now we are actually getting the benefits of that. So, you should expect that for the future.

And in terms of EBITDA margins it is important to notice that we have different kinds of operations. So this margin that you have now, of 57%, considers real estate. And if we have more real estate going forward in the future; this number can come down as the margins are about 40%. On the other hand our shopping mall margins are now at 68% net increase compared to last year. You should keep increasing this margin and we should expect something around 70% in the future. About the guidance for CAPEX I can firstly say that we have already helped you with the guidance and the use of proceeds chart where you can see what is our expected expenditure for 2008. For 2009 we are not giving this guidance for now, as this is our policy, but you should expect us to be announcing more projects with the value of the CAPEX to get a clear number of what will be our investments in the future years. I hope that helped your question.

Verena Wachnitz:

Thanks. My second question was more related to SFO rather than CAPEX; or net operating income.

Multiplan:

We do not give guidance about future SFO or net income. On the other hand, shopping centers are very low-risk investments. So you could expect the same numbers that you have now for the future considering the organic growth that we are experiencing.

Verena Wachnitz:

Thank you very much.

Operator:

There are no further questions. I will turn the call over to Mr. Isaac Peres for final considerations. Mr. Peres, you may give your final considerations now.

José Isaac Peres:

Thank you very much, and I expect to bring you very positive, new information for you on our next conference call. Thank you.

Operator:

Thank you. This concludes today's Multiplan 3Q07 earnings conference call. You may disconnect your lines at this time, and have a great day.