Fourth Quarter Earnings Results
March 13th, 2018

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to the **Aliansce's fourth quarter 17 and 2017 earnings conference call**. Today with us, we have **Mr. Rafael Sales, Vice-President, Mr. Renato Botelho, CFO and IRO, Mr. Leandro Lopes, COO, Mr. Mauro Junqueira, CIO, and Mrs. Daniela Guanabara, Strategy and Investor Relations Director.**

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 the company's remarks are completed, there will be a question and answer section for investors and analysts. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator. There will be a replay facility for this call for one week.

We have simultaneous webcast that may be accessed through Aliansce's IR website, at http://ir.aliansce.com.br. The slide presentation may be downloaded from this website; please feel free to flip through the slides during the conference call. We would like to inform that questions can only be asked by telephone, so if you are connected through the webcast, you should email your questions directly to the IR team at ri@aliansce.com.br

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of the company's 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 operating factors could also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to **Mr. Rafael Sales,** who will start the presentation. **Mr. Rafael**, you may begin the conference.

Mr. Rafael Sales: Good morning everyone. Thank you for your interest in Aliansce's fourth quarter 2017 earnings results. Before diving into the presentation, I would like to make a few initial comments on the company's performance this past year.

For the third consecutive quarter, we have seen strong signs of recovery in our results and we closed 2017 with a significant growth in our main financial indicators. Our NOI grew 7.9% during the year, while our Ebitda increased 11.5%, and our FFO almost 65%.

This performance was a result of the improvement in our operational indicators during the year with an increment in revenues and reduction in costs, especially those related to provisions for tenants' delinquency.

An important indicator to highlight here is also the performance of our tenants' sale. The positive recovery trend has consolidated throughout the year and total sales in our malls presented growth of 9.8% in 2017. We also noticed an important evolution in the organic growth in our portfolio. Our same-mall sales increased by more than 5% in fourth quarter and in 2017.

In the current scenario, as we start to feel signs of economic recovery and having above-average number of new tenants being introduced to our centers, same-mall sales have proven to be the best sales performance indicator in order to evaluate the strenght of our portfolio.

One of the most important levers in our business is related to our mix management capability, thus, this increase demonstrates the resilience of our assets and their capacity to deliver strong organic growth. This seems to us to be a better indicator to follow the same-store sales at this moment. Obviously, same-store sales still represent a relevant number, but less precise today in terms of portfolio health. In our case, we have 22% of stores occupied by different tenants today than we did 24 months ago.

About the portfolio same-store sale indicators, in the fourth quarter our portfolio presented a same-store sales growth of 2.7%, the third consecutive quarter of growth. In terms of same-store rent, we had growth of 2.5% in the fourth quarter, which represented 1% real gain.

In addition to sales figures, our main operational indicators continue to demonstrate robust performance and the result of our commercial strategy with an intense leasing activity.

As we have mentioned in the last few quarters, the entry of new tenants with better operational metrics promote expressive increase in sales of replaced stores. Those stores that were changed since the fourth quarter 2016, for example, presented an increase of more than 30% in sales per square meter, well above the portfolio's average.

The effort to recover delinquency has been another focus of all management in recent months. These efforts have yielded positive outcomes so far, and in the fourth quarter the company's net delinquency reached the very low level of 0.4%.

Since this result was strongly influenced by a higher rate of recovery of overdue invoices in the fourth quarter, we do not expect such a low ratio of net delinquency to be replicated in the next quarters. However, in the whole year of 2017, net delinquency reached 2.6%, which we believe to be a more recurrent base line for a year.

As a result of these efforts over decreasing delinquency, our PDA costs were reduced by 20% in 2017.

Now I'd like to go over a few other subjects on the next slide. On slide 4, I'd like to give you an update on some of the company's main initiatives during 2017. A subject worth mentioning here is the implementation of our new management system, the SGA 3.0. We are making headway in this process and the 2018 budget was based on the results of the studies that originated the SGA 3.0 framework. We hope to see important outcomes in tenant mix and pricing to be captured within the next 3 years.

Another consequence of the SG&A 3.0 is our new incentive framework in the commercial department. The commercial executives' goals will be oriented by the new pricing and mix model. We can, thus, expect to extract more value from our portfolio's potential using our scale of 31 managed malls and almost 7000 stores.

Another relevant point here, which I roughly commented earlier, are our initiatives to increase efficiency in rent collection. As we have mentioned for a few months, this was one of our main management focus in the second semester of last year, and important results have been achieved so far with an expressive decline in delinquency in our malls.

In the financial area, we have continued our reprofiling strategy of our debt, and in the year with approximately 40% of our total debt linked to the CDI benchmark rate.

In 2018, we will continue with our strategy of prepaying or possibly renegotiating more expenses debt, thus, reducing our financial costs.

At the end of 2017, we altered Aliansce's organizational structured transferring the operations of Bangu Shopping and Boulevard Belo Horizonte directly to the Holding company. This way, we simplified our corporate structure, which we hope will generate economic benefits to Aliansce later on.

In the people and performance area, we implemented a new performance of evaluation framework for our employees seeking a higher level of engagement and commitment towards the achievement of the company's long-term objectives.

In addition, we will extend our partnership program to a higher number of executives with the distribution of stock options to the top performance and high potential talents.

Now on slide 6, I would like to show you a few pictures of a new corridor just opened at Shopping da Bahia, our largest center, integrating the malls' second floor directly to the new subway station and the bus terminal. We expected this transportation hub located in front of the mall to generate a flow of approximately 45,000 people a day. The subway station started to operate at the end of this last year and the malls' integrated corridor was open in February.

We expect this integration to generate even more flow and increase loyalty of customers towards our largest asset.

Now I give the floor to Daniela Guanabara, our IR and Strategy Director, who will comment on the details of this quarter results. Thank you, I will be available for the Q&A session.

Ms. Daniela Guanabara: Thank you, Rafael and good afternoon everyone. Continuing on with the presentation, we turn to slide 8, where we present the company's sales performance.

We've recorded the third consecutive quarter of positive sales in our shopping malls with same-store sales growth of 2.7%. We remain optimistic about the first quarter of 2018 as we've been observing positive performance since in the first months of the year.

Sales per square meter have already captured the company's commitment to strengthening and updating the tenant mix, presenting growth of 3.6% in the quarter. The highlight was in the month of November, when sales per square meter grew by 6%. Total sales at Aliansce's stake showed growth of 7.8%, reaching 1.9 billion in the quarter. In the year of 2017, total sales grew by 9.8% at Aliansce's stake.

Moving now to slide 9, we have the company's financial highlights. Revenue from mall operations, which excludes the effect of straight-line rent adjustments and revenue from services, grew 2.7% in the quarter and 6.1% in the year. Our malls' parking revenue, which had growth of 7.6% in the quarter, was driven by the increase in the average ticket in the fourth quarter.

Turning to slide 10, as Rafael briefly mentioned in the introduction, the pace of Aliansce's leasing activity has remained at a high base line for some quarters now. In the last 12 months, we have leased 449 stores, an increase of 21.7% compared to 2016, which is equivalent to an area of 38,000 m², an increase of 21.2%.

It is important to emphasize once again that the same-area sale of stores replaced in the last 12 months presented growth of over 30%. We have also noticed that the recently added tenants are more productive and present operational indicators, such as delinquency and occupancy costs, that are more efficient or at a more adequate level than those of outgoing tenants, helping to boost of the company's NOI.

As an example of a recent opening, we had a medical center at Parque Shopping Maceió last November with an area of 2,000 m², which is split into 6 operations, including clinics, an exam lab and a pharmacy. Soon the mall will also be launching an app so that the patients can schedule their exams and receive information about their appointments while shopping.

Moving now to slide number 11, we have some indicators of our malls operational performance. In the fourth quarter of 2017, the occupancy cost was 9.6%, a decrease of 0.5 percentage points compared to the fourth quarter of 2016. The fall was a consequence of the improvement in sales, the effect of discounts and the lower impact of inflation over rent adjustments in the last 12 months.

The strategy of qualifying our malls' tenant mix in conjunction with the recovery of the economy will generate the necessary condition for the evolution of rental revenues in our portfolio.

The portfolio occupancy rate ended the quarter at 96.1%, registering improvement of 0.5 percentage points in relation to the third quarter of 2017. This outcome is a result of our previously mentioned leasing and store substitution efforts and should contribute to the reduction of our operating costs with vacant stores helping to boost the company's gross margin.

Moving out to slide 12 with the evolution of net delinquency and rental income. Net delinquency was one of the highlights of the quarter reaching 0.4%, which is the lowest level since 2011, representing a decrease of 300 bps compared to the fourth quarter of 2016.

In 2017, net delinquency closed the year at 2.6%, a reduction of 250 bps compared to 2016. The fall in delinquency leads to a subsequent reduction in the PDA, which declined by almost 40% in the quarter and by 20% in the year.

Rental revenue increased by 2.1% in the fourth quarter impacted by the performance of mall and media and overall rents revenues due to the increase in the number of contracts linked to sales performance.

However, the minimum rent presented a slight decline in the quarter. Part of this reduction is due to the variation of inflation in the period and due to the effect of discounts, which are included in this line. It is important to note that in the whole of 2017 we observed an increase of 6% in rents revenue and of 5% in minimum rent.

Moving now to slide number 13, we can observe through the charts shown here that the amount of discounts contributions and PDA for the last 12 months represented 16.3% of the company's net revenue compared to 7.9% in 2015, which would be equivalent to a value of R$ 48 million.

Our efforts to recover some of this value have yielded positive results and we can see that this percentage is falling gradually. After reaching a peak of 17.5% in the second quarter of 2017 considering the last 12 months, we have seen a gradual recovery due, in large part, to the reduction in the relative weight of PDA costs over net revenue in the last year and also due to the recent drop in costs with vacant stores.

In the next slide, number 14, we present the investments made in 2017 by the company, which totaled R$ 428 million. The company invested approximately R$ 30 million on renovations and maintenance and approximately R$ 7 million in specific expansions in its malls.

Our expectations for 2018 is to close the year with an estimated Capex between R$ 90 and R$ 130 million, including possible investments in expansions. Our focus continues to be on keeping our portfolio up-to-date in terms of maintenance and increasing our exposure to core assets. These are dominant malls in highly dense areas with clear growth potential where we can implement our management practices, which have proven to be efficient to improve the assets' overall performances.

Turning now to slide 15, we will present some information on the evolution of the company's capital structure. Here the highlight is the increase in exposure to CDI to almost 40% of total debt at the end of 2017, which enabled us to reduce the share of debt indexed to the TR fixed rate.

We reached the top of our goal of ending the year between 30% and 40% of debt linked to CDI. With this strategy our average cost of debt based on the rates accumulated over the last 12 months was reduced to 10.7% in the fourth quarter of 2017 compared to 13.3% in the fourth quarter of 2016.

Considering the rates verified at the end of 2017, the cost of the company's debt would be of 9.2%. Our debt amortization schedule is adequate, and our operating cash flow will support the maturities scheduled for the coming years. Over the next 3 years, the amortization schedule remains at a comfortable level, below 30% of the adjusted Ebitda of the last 12 months.

We closed the quarter with approximately R$ 550 million in cash, maintaining adequate liquidity levels, which allow us to continue with our liability management strategy using part of this cash for possible prepayments and renegotiations with more onerous debts.

I would now like to open the floor for the Q&A session. Our team is available to answer any questions you might have. Thank you.

Question and Answer Session

Operator: Ladies and gentlemen, the floor is now open for questions from investors and analysts. If you have a question, please press star 1 on your touchtone phone at this time. If at any time point your question is answered, you may remove yourself from the queue by pressing star 2.

Our first question comes from Gustavo Cambauva, BTG Pactual.

Mr. Cambauva: Hey, good morning. I have 2 questions here. So the first one, you mentioned in the presentation that you are implementing this new management system SGA 3.0, so can you please provide more color on that? What should be the main impacts of this management system and what could we expect in terms of, say, optimization of the shopping malls and if we can, say, already see anything, like any kind of improvement already this year or should we expect like a recovery in a longer horizon?

And my second question is that you guys disclosed what should be like the normalized level of revenues if we were back at the same level of discounts seen 2 years ago, like similar PDA level, etc., and according to the presentation this could represent a R$ 48 million increase in Ebitda.

So my question is: How long you think it should take to kind of recover this R$ 48 million? We can see that the PDA decreased in Q4 quite a lot, but are you already like removing the discounts this year? And also, if you can provide some color on, say, what types of assets concentrated built of the discounts, this would also help here.

That's all, thank you.

Mr. Sales: Hello Gustavo, this is Rafael speaking. Thank you for your question and for your interest. I will first address the first question, the SGA 3.0.

As we first explained 2 months ago, during the last 8 months we put a lot of effort in understanding the practices that have been adopted by the company during the last years and trying to understand how replicable we could do it in a more scalable way and try to build a system of evaluating performance of sales and tenants performance in a more automated way as well, and we invested in bringing in research and consulting companies to help us develop these skills and our capacity of analyzing data.

So now what we can say very much data-driven in terms of understanding the sales performance of tenants in the segments that we have in our malls and with that we are developing a methodology and we are already implementing part of the methodology to improve mix performance and improve mix that would drive sales performance, because sometimes we have potential of increasing sales even increasing rents, even if we don't have increase in sales, for example, because we have the right mix, with the right tenant, selling better, having better sales performance and getting better PNL.

So understanding the PNL of the retailers, the positioning of the brands among the country, spread all over the country, understanding the potential of each of our assets in terms of mix composition allow us to reallocate the mix in a more adequate way, which will generate better pricing in the future for our assets as well.

So the main 2 drivers of this process are mix and pricing, and we call the adequate pricing not just trying to increase prices at any cost.

Those are the main drivers, and to understand the possibility of implementing that we did a deep research on the positioning of our malls and our centers to understand the real income availability that we had around and the positioning that we had in terms of competitive edge. So we are now certain that the majority, more than 70% of our base of assets and more than 90% of our NOI, is coming from assets that are dominant in the regions where they are, and they are located in dense areas.

Those dense areas can be from higher middle-class, middle class or even wealthier regions, so we have to adequate mix accordingly, to the needs of those, the public that we have in that areas that are influence of our malls.

So all that was considered to build this process, and together with the knowledge and experience of our team we built up together with our operational directors, the regional managers and the mall general managers. They all worked together in working groups to build this methodology that we believe is an evolution of what we were doing in the last years.

We are very confident that this will lead to better performance, not just for us, but also for our tenants because we are going to have a more balanced mix, and that's the main objective of all that.

Of course, as you know, we don't have guidance in terms of the figures for next years, but we believe this helped a lot already in identifying the positioning of new tenants in or malls, it helped in the last quarters certainly on improving the positioning of our malls in terms of occupancy and also understanding where we can charge more, so being more accurate in the delinquency management.

We believe next year… this year, in 2018, we are going to start to see some results from these methodologies and from this data management that we are doing. But we are also not giving guidance, we are just expect to keep recovering part of the numbers that you pointed in your second question will be captured by those new tools that we are implementing, and we believe that in the next 3 years we are going to be able to bridge this gap of the discounts and other costs that have influenced other results in the last couple of years.

And in terms of discounts, as we said 2 quarters ago, we would focus this year reducing delinquency and improving provisions. This would be the main focus of this year, regardless that we have to work in all the aspects of the business, but this would be one of the main drivers of value, and now certainly there is some value on reducing discounts, we expect a very gradual recovery on that figure, not big jumps in terms of reduction in discounts, but we expect that gradual consistence recover according to the performance and to the replacement of tenants that were not performing well.

So just with the effect of ramp-up of the new contracts, of the tenants that were entering the mall in the last 24 months, we expect to see these discounts being reduced because those tenants have grace periods, they have ramp-up in their rents, so this will be gradually captured by our results. Thank you.

Mr. Cambauva: Okay, thank you.

Operator: The next question comes from André Mazini, Bradesco BBI.

Mr. Mazini: Hello Rafael and Daniela, thanks for the call. So my question is on liability management. So you guys pretty much prepaid some debts and that incurred in a prepayment penalty of around R$ 7 million. Am I correct?

I'm wondering, you want to increase the exposure to the CDI by about 10% more until 2018, taking it to 50%. How much more prepayment penalty would that incur, if any?

And also, what's the average cost of debt you guys see having by the end of 2018 assumed the SELIC will stay close to 6.5% in that range? Thank you.

Mr. Sales: Hello André, thank you for your question and your interest. Just to clarify, these were not penalty fees, those were also penalty fees, but not just penalty fees. When you structure a deal and you book the structuring fee, you book it gradually according to the duration of the debt, so when you prepay any debt you have an anticipation, accounting anticipation of this cost. It is non-cash because it was already paid when you structured the deal years ago.

So part of this impact here in costs (the financial costs) were that we considered non-recurring, it's exactly because we don't intend to make such intense prepayment for many years in the future. It is going to probably be in 17 and this year we will have this impact, but going forward it's not something that we usually do, it's just clear window of opportunity that we are taking in 17 and 18 to take advantage of the lower cost of debt that is available nowadays.

And the other question is we are estimating that our top of cost of debt at 9% for

18, but we are working to try to have it even better by renegotiating terms and costs of debt and also eventually prepaying and refinancing better conditions, okay?

Mr. Mazini: Perfect, thank you, Rafael.

Operator: Our next question comes from Marcelo Motta, Banco JP Morgan.

Mr. Motta: Hi, good morning everyone. Two questions as well. The first if you could comment a little bit about Shopping da Bahia. We saw that rental revenues there kind of, let's say, lagging inflation. We know that the shopping is going through a turnaround, we saw the improvements in the surrounding areas, the connection with subway, etc. So what could we expect in terms of a ramp-up in this asset and if we could already see the positive impacts in 2018 numbers.

And the second question regarding Ebitda margin, there was a very strong margin this quarter if we adjust by those, let's say, nonrecurring one-off events. What can we expect for the next year as a more normalized level?

Mr. Sales: Okay, thank you Motta. I will pass the word to Leandro to discuss with you a little bit about Shopping da Bahia and what we are doing at the mall.

Mr. Leandro Lopes: Hi Motta. As we spoke before, the subway opened in February and we are expecting much more flow in the shopping center. We are expecting more than 45,000 people daily, so of course this is going to drive in much more people and much more sales, and also we are making a lot of efforts in terms of bringing new stores, as I mentioned before, RiHappy Megastores is one of the most important that we did in the last year, and they are going to improve much more sales and much more new tenants for this area.

So we are expecting a slightly recovery for the whole year, and then we are making much more efforts in terms of increasing the leasing activity in a specific mall.

Mr. Sales: Also I would add that we are bringing new restaurants and casual dining to the mall that is also helping a lot. We just opened the Paris 6, so I invite you to try the restaurant any time you are in Salvador, and a new Japanese restaurant that is probably one of the best in town that we are bringing to the mall. So please, when you are there try our new facilities.

Regarding the margins, Motta, it is a very good question because the fourth quarter margin was impacted by a big recovery in delinquency, and of course part of the delinquency figure for the fourth quarter we don't believe it's recurring. However, the whole year number of delinquency we believe it is more likely to be the recurring.

So for the whole year Ebitda margin we believe we are in a recurring level and with potential improvement this year with the gradual recovery in both continuous recovery in the PDA, in the provision figures, and in the brand that we believe to be also recovering in the next years with the reduction in discounts.

Mr. Motta: That's perfect. Thank you very much.

Operator: Once again, if you wish to pose a question, please press star 1 on your touchtone phone. Please hold again while we poll for questions.

This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Rafael Sales for any closing remarks.

Mr. Sales: I just want to thank you, all of your interest in the company again. We will be available for answering your questions in more details with our IR team and our people. And we hope to see you… talk to you in the next earnings call. Thank you, bye-bye.

Operator: Thank you. This concludes Aliansce's fourth quarter 2017 and 2017 earnings conference call. You may disconnect your line at this time. Have a nice day.