First Quarter Earnings Results
May 4th, 2018

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to the **Aliansce's first quarter 18 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 session 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. Before diving into the presentation, I'd like to make a few initial comments on the Company's performance this quarter.

In this last quarter, we continued to see the confirmation of the positive trend in our results and we ended the quarter with a sound growth in our key financial figures as a consequence of the strong operational performance of our Centers. Our NOI grew 6.4%, while the recurring EBITDA increased by 8.1%, while margin expanded

221 bps and AFFO expanded by nearly 19%.

This performance results from improvements in our operating indicators, mainly driven by the gradual increase in sales and revenues. Another aspect to highlight is the cost reduction, mostly related to provisions and mall operating costs. This effect in mall operating costs comes especially from the rump-up of the recent leased areas, which resumed with special conditions and are now contributing with their respective common area costs.

We expect to see this improvement effect for the whole year as a consequence of the maturation of the contracts. Also in this quarter, total sales increased by 7.4%, confirming the trend of strong sales growth in our malls, higher than the general retail recovery. The month of March presented the strongest performance of the quarter, boosted by higher sales during the Easter period.

Same malls sales, the indicator which we consider to be the best proxy for organic growth, increased by 6.8% in the first quarter of this year. The same store sales of our portfolio also showed a sound growth of 4% in the quarter. This was the best same store sales performance since the fourth quarter of 2014. Even if we consider the Easter effect, which last year was in the second quarter, the same store sales would be positive at 3%, a real growth of 200 bps.

Now moving to slide 4, I would like to give an update on some of the Company's main initiatives for 2018.

The quality of our portfolio has been gradually improved by the continuous search for tenants with healthier operating indicators and the appropriate mix for each mall. Today, we have 23% of our GLA occupied by different operators compared to 24 months ago, reflecting a better growth in the same malls sales which includes the effect of the stores whose operators have been replaced during this period.

Over the past months we have seen an increase in tenants' demand for areas in our malls, which should lead to higher occupancy rates throughout the year. Net delinquency in the first quarter reached 5.9%, slightly above the first quarter of last year.

The Company's efforts to reduce discounts had an expected impact on net delinquency. However, the decline in discounts more than offset this increase in delinquency, contributing positively to the NOI and EBITDA.

Moreover, as we have been explaining, the higher delinquency in the quarter did not affect the continuous drop in provisions expenses, once the 12 month delinquency fell 174 bps. And as we mentioned in the fourth quarter, we expect to end the year with delinquency rates at similar levels as of in 2017, with provisions gradually converging to delinquency levels.

On another topic, in the financial side, we continued with our debt reprofiling strategy with more than 40% of CDI exposure by the end of last quarter. In 2018, we will continue with the prepayment strategy in addition to renegotiating the more expensive debts, which have longer term maturity and are attractive in terms of preserving the Company's liquidity. We expect to end the year with approximately 50% of CDI exposure, and an average cost of debt in the range of 8.5% to 9%.

Lastly, based on last year's results, we made an additional distribution of Aliansce’s partnership plan. Altogether, these programs already comprise 23 employees from an eligible group of 50, which are considered the company's key talents.

The Company's objective is to have an annual distribution of stock option programs, provided the parameters set by the Board of Directors are met. In this way, we expect to further align the interests of employees and shareholders and the meritocratic aspect of the plan also contributes to keep the focus on generating long-term value and sustaining profitability. At the same time, it provides the opportunity for the partners to take part in Aliansce’s success.

But in this case without easy gains, it’s important to highlight, because all participants that exercise their rights to buy shares will have to make out-of-pocket investments and respect the rules for vesting and the lock-up period.

Now going to slide 6, here we show some of the perspectives for the renovation at Via Parque Shopping food court. This project will leave the mall with a new and more modern ambiance and should attract even higher flow of people. The work is scheduled to be completed in the second half of this year.

In addition to a renewed food court, Via Parque is also refreshing its casual dining options with 2 recent openings: Fiametta in last November (it’s an Italian restaurant) and Gula Gula in January this year. These are well-regarded casual dining local operations, and we expect them to make the mall even stronger. Via Parque has an occupancy rate of 96.9%, which is above the portfolio’s average.

Turning to slide 7, here we analyzed Aliansce's leasing activity, which was once again a highlight of our results. In the last 12 months, we have leased 464 stores, an increase of 21.5% over the same period of the year before, representing an area of 33.500 square meters. It’s important to emphasize that the same area sales of the replaced stores in the last 12 months presented growth of approximately 30%.

Now I would like to pass the word to Daniella Guanabara, our IR and Strategy Director, that will make comments on the first quarter results. Thank you all, I will be available in the question and answer session.

Ms. Daniela Guanabara: Thank you, Rafael, and good morning everyone. All of you already had access to Aliansce's first quarter 2018 results, which were published last night. Thus, we will quickly go through the highlights of each slide and open for Q&A at the end of the presentation.

Let's move on to slide number 8, where we present the Company's sales highlights. For the fourth consecutive quarter we posted positive sales growth in our malls, with same store sales reaching 4.1%, the highest since the fourth quarter of 2014. Sales per square meter, which reflect the movements of changing mix and strengthening of the portfolio, presented a 5.5% growth in the quarter.

On slide 10, we have some of the Company's financial highlights. Aliansce's gross revenue, excluding the effects of key money and straight line rents, amounted to R$ 139.5 million, which is a 2.3% improvement over the first quarter of 2017, while net revenues posted a growth of 4.4% year on year.

The behavior of net revenues represents a more accurate analysis of the evolution of Aliansce's results, as it accounts for the full impact of discounts, including those deducted from gross revenue. Additionally, the growth of services and parking operations positively contributed to the Company's net revenue evolution.

Going now to slide number 11, we have some figures from the operational performance of our malls. The occupancy cost in the first quarter of 2018 was 10.9%, a decrease of 70 bps compared to the first quarter of 2017. The drop was a consequence of the improvement in sales and the lower inflation impact on rent adjustments in the last 12 months.

Finally, the portfolio occupancy rate ended the quarter at 95.9%, remaining flat if compared to the fourth quarter of 2017. This performance indicates that, although it is usual to observe a drop in occupancy rates between the fourth and first quarter due to the seasonal aspect of shopping malls business, the Company leasing activity has been effective in maintaining the occupancy rate stable.

On slide 12, we can see that net delinquency reached 5.9% in the first quarter of 2018, a bit higher than last year in the same quarter. However, analyzing the net delinquency in the last 12 months, we saw a drop of 174 bps.

As Rafael already mentioned, the significant reduction in the level of discounts in the quarter more than offset this increase in delinquency, which makes this an accretive dynamic regarding NOI. It also did not hurt our malls high occupancy rates given the demand from tenants for new areas. Provisions, which has reached its peaks between the fourth quarter of 2016 and the first quarter of 2017, has now reduced to 6.4% of net revenues, roughly the same level as the first quarter of 2016.

Moving now to slide 13, the positive trends in our results can be confirmed through the evolution of both EBITDA and AFFO figures. The EBITDA margin has now recovered to the same level of the first quarter of 2015 at 66%. The expansion in AFFO margin is even steeper to 30% in the first quarter of 2018 from 16% in the same period of 2015, as the Company reduced at high cost debt, increased exposure to CDI rates and improved its fiscal structure.

In the slide 14, the Company's CAPEX in the first quarter of 2018 amounted to nearly R$ 10 million. Aliansce invested R$ 2 million on maintenance and renovation of its malls and approximately R$ 1.6 million in expansions, such as the construction of the shell of the Caçula anchor store, which will open in Boulevard Campos in the second half of this year. By the end of 2018, total CAPEX should remain between R$ 90 and R$ 130 million, including possible investments in expansions and redevelopments.

Slide 15 shows the Company's capital structure at the end of the first quarter. Here, the highlight is the increase in exposure to the CDI to nearly 43% in March 2018. We expect to end the year with almost 50% exposure to this index and an average cost of debt of around 8.5 to 9%.

We ended the quarter with approximately R$ 430 million in cash, maintaining adequate liquidity, which allows us to follow our liability management strategy using part of this cash for prepayments and renegotiation of more expensive debt.

Now I would like to open for your questions, our team is here, available to answer them. Thank you.

Mr. Rafael Sales: Hi, this is Rafael again. Before opening for questions, I just want to comment on the last slide of the presentation, slide 16. Here we are showing NOI figures for our 10 largest centers. We thought it would be interesting to share this data on this quarter once we had a significant difference between gross and net revenues due to the impact of the lower inflation in the gross revenue and the reduction of discounts on the net revenues.

It is important to highlight that same store rent and same area rent indicators have always been based on gross rental revenues, so they do not reflect the significant discount reduction in this quarter.

Having said that, we decided to show exceptionally in this quarter the NOI dynamics of our 10 largest malls. Here you can see that some very important assets, which rent revenues seems to have had a small growth or even a drop, in fact had a grow, a good NOI growth.

This is the case, for example, of Shopping da Bahia, our largest asset, which posted good sales growth that was reflected in the improvement of NOI due to the reduction of discounts and delinquency.

Now let's open for the questions then. Thank you.

Question and Answer Session

Operator: Thank you. 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 point your question is answered, you may remove yourself from the queue by pressing star 2.

Our first question comes from Gustavo Cambaúva, BTG Pactual.

Mr. Cambaúva: Hi, good morning. I have 2 questions here. So, first, on the G&A expenses, can you please like give us some color on what should be like the normalized level of G&A expenses that we should expect for this year? I understand that part of the increase in Q1 is like non-recurring linked to this bonus payment, but if we look at the recurring part of the G&A, it has also like increased as you have like created some new areas within the company. So what should we expect? Maybe more increases in G&A expenses or this level of Q1 should be like the new normal going forward?

And my second question is on the rents. We have been seeing these changes in the tenant mix and you guys have been saying that like new tenants are selling 30% more than the older tenants but looking at the rents we are not seeing that much of growth yet. So I understand that in the leasing spread, the leasing spread has been negative to attract those tenants, but even the overage rent of Aliansce has actually like decreased year over year.

So my question is: why this like improvement in the tenant mix is not being captured in the rents or even the overage rent yet, and when do you expect this increase in tenants' sales should be like reflected in the rental revenues?

That's all, guys. Thank you.

Mr. Sales: Hello Cambaúva. Thank you for your questions, and well, addressing the first one, it's the G&A. Regarding G&A, basically you are right understanding that there is a new level because of the new structure that we have. Those structures are helping our performance to improve, part of the gains that we had, especially in discounts and reduction in delinquency and being able to replace faster lower-performing tenants with better-performing ones, come from this new areas' effort.

Giving a general guidance for this year, we expect a nominal reduction for the next quarters because the first quarter had this impact, so we would expect near to 15 million per quarter for the next 3 quarters. So it's a good reduction from this first quarter to the next ones. Ok?

Going to the impact of the good sales of the new tenants in our rents, the first answer, the easier first part is that the new tenant sometimes they have grace periods of paying rents, so this is still affecting the rents revenue growth. Also that same area rent and same store rent comparison, por example, in this case for same area rent, was based on the gross revenue of the company, in the gross rental revenue.

So now that we are reducing discounts, you don't see this effect in the same area rents effect. So, for example, if we have a better performance from the tenant, that is now paying, for example, common area that was part of their grace period, now they are with a specific special condition, that they will be paying an overage of the total sales. These will gradually become rents.

So the good news is that we are seeing good NOI numbers because we are seeing reduction in the costs because the common area costs are being payed by the new tenants, and we are going to see gradually this coming to the gross rental revenue line, and also we are seeing already discounts going through the net revenue lines, so that's why NOI grew much more and you can see in this last slide that we showed, slide 16, for example, a mall like Via Parque, that's in Rio and that is of course with the influence of the difficulties that Rio economy have had the last years, the sales are growing well and also NOI is growing very well, and I can say that general sales in Rio is very strong and this is helping NOI to grow, and not necessarily NOI in the same area or in the same mall, but NOI in the general mall, because of this impact of the new tenants.

Mr. Cambaúva: Okay, thank you.

Operator: The next question comes from Luis Scacchini, Credit Suisse.

Mr. Scacchini: Hi everyone, good morning, thank you for the questions. I also have 2 questions here. The first on the discount side, I actually saw a market reduction taking place over the past 2 quarters now. If you could please, you know, provide some comments on the current level of discounts versus the peak level, I pretty want to know how much of the work was already made here and how much is left for you to rip in terms of the benefits of, you know, lower discounts. And if you could also provide some comments on the timeframe that you expect the stabilization in the discount levels to take place would also be great.

And the second question would be pretty much on the occupancy costs. We are seeing Aliansce's occupancy costs down quite a bit from the peak levels, but still, you know, somewhat above the levels that we saw, you know, before the financial crises here in Brazil, so I pretty much wanted to know whether you already find the current level as healthy from, you know, the tenants' standpoint or if you would rather wait for maybe some additional declines in occupancy costs before becoming more aggressive in rent increases either, you know, through future negotiations with tenants, maybe highly spreads or maybe fearsome, you know, discount reductions. That would be the questions. Thank you.

Mr. Sales: Thank you, Luis. Basically, we have been able to reduce discounts because of the better performance on sales and because of the better mix that we have now – as we highlighted we have 23% of the basis new operators in our asset comparing to 3 years ago – and this gives us a lot of confidence that we will be able to reduce those discounts that you mentioned.

We have a timeframe of 2 years to reduce discounts after the analysis that we did during last year as you know and considering the performance of the retailers in comparable areas and the segments that we have studied, and the one that we brought to the malls recently, so we expect to, in 2 years, to have these discounts in a much lower level, and near to the levels that we had before, so much lower than we have today.

It's a gradual trend, we don't give a guidance on the numbers, as you know, but we believe it's going to be a gradual benefit to the company and we believe during the whole year we are going to have this effect, especially reducing the post-billing discount and then focusing in the pre-billing discounts, and this will influence the results for the whole year. Also, unfortunately we don't give guidance, but I think it's ok to look at the first quarter as initial of the trend of the discounts reduction.

On the occupancy cost, I would say that we are very comfortable with this recent level. As we mentioned in the last quarter, the end of the year we would start to see positive leasing spreads, and that's what we are seeing now, for the first quarter in many, many quarters we had a good leasing spread compared to the last quarter when we still had a net near to 10% leasing… negative leasing spread, this quarter we had from 0 to 5% growth in leasing spread.

So it's was a good news also, as a consequence of understanding the potential capacity of payments for the new tenants that we are bringing in, and the fact that we have a much higher demand for leasing areas and retail areas in Brazil, especially in some regions specifically, and this demand is helping us to negotiate better rents.

So we believe we already crossed this bridge in terms of occupancy costs, and also it's important to highlight that the years before, our numbers of occupancy cost in the years before 2012 or 2013, we had especially low occupancy costs because we had too young malls in the portfolio and those young malls usually had special conditions to bring tenants for the launch and to start the mall with good occupancy. That's basically the reason.

Mr. Scacchini: Alright, thank you very much. If I may just follow-up on the leasing spreads that you mentioned, are these general leasing spreads, or maybe only those related to renegotiations, or only those related to new tenants?

Mr. Sales: No, it's the combination. We always mention the combined leasing spreads. The combination of the new tenants and the renovations.

Mr. Scacchini: Alright, thank you very much.

Operator: Our next question comes from Luis Mauricio Garcia, Bradesco.

Mr. Garcia: Good morning guys. I also have 2 questions. One is actually a follow-up from the discounts being phased out as you mentioned. So given that, in terms of gross revenues, we are not yet seeing a growth, mainly due to the reasons you already mentioned (the leasing spread and the grace periods of new tenants that recently joined into the mall), so going forward, it would be reasonable to assume that given discounts phase out should take 2 years being gradually phasing out as you mentioned, combined with the fact that the gross revenue should start showing some improvement due to the end of this grace periods you mentioned, so the bottom line here is that... should we assume net revenues due to these 2 combined effects growth on a year over year basis being stronger in following quarters? Because again, so far gross revenues are not growing, so the net revenues as a consequence may not discount, so this is a scenario reasonable for us to assume?

And the second question is regarding mall's performance. I think there were a kind of consensus deal also coming from major players (not only you guys, but also some other players) that were expecting the recover to be somehow similar between high-end malls and malls targeting lower-end consumers, but what we are seeing so far (not only in your case but also other players that already published results) is that the malls targeting more mid-income are recovering faster, and we see this in the case of your shopping Leblon and a few other examples, for example.

Do you think that this is something very specific, or for, you know, short term or higher-end consumers are now more afraid about confidence on the political scenario and this is negatively affecting higher-end malls? So what is your view about this gap we are seeing between higher-end malls and mid-income malls targeting mid-income families that were something, let's say, not really expected by most of the players?

Mr. Sales: Luis, thank you very much for your questions. First, the discounts, you are right about all the conclusions regarding net revenues and gross revenues and the gradual discounts. First, they are impacting net revenues then they will impact more net revenues, that's right. Also I would say that second half of the year we would see... we expect and we are convinced that we are going to see good growth in both lines, in gross revenue and net revenues, because there will be a normalized inflation effect combined with the fact that we know the anniversaries of the contracts will be simply in a more positive level of inflation and all the other things that come together with the discounts and the reductions and the effect that we have a better tenant performance in sales.

We are monitoring sales in a very detailed way, and that's why we believe that we'll be able to pass through these prices and this rental increase the next couple of quarters.

Going to the answer about the performance of each mall, I would say that there are 2 specific effects here: One is the general higher or midclass in fact and also the location. For example, in terms of location, we are seeing good performance in Via Parque. There is a mid to hi-end mall, it's in Rio, and Rio is an important driver of recover, and at the same time we are seeing very good growth, for example, in Carioca Mall, that is a more middle class mall, as you mentioned.

But I think the most important thing to keep in mind is that the high-end malls didn't have that much drop in sales. So that's maybe because in this first quarter or in the beginning of the year there is not much difference here, but we are not really worried about it, and we can see that some of our malls that are more exposed to the high-end are, well, not growing as much as the other ones, but in terms of profitability they are quite well, and I think the one that I highlight is basically Via Parque and also Boulevard Belem and Boulevard BH.

You see that Boulevard BH is already the mall that sells the most in the region that they are, even considering that we have 2 very strong malls and much more mature, we are selling more than the 2 malls, because we have public information about those sales, and Boulevard BH is becoming a mid hi-end mall. It's clearly showing good performance, so there is a combination of segments and location. Is it what you asked? Ok?

Mr. Garcia: Ok. That's great, thank you.

Mr. Sales: Thank you.

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

Mr. Motta: Hi, good morning everyone. Two questions as well. First, if you could comment a little bit about potential divestments, I mean, the company has been doing a great job reducing leverage, but we have been seeing a lot of players capitalizing the market I mean, especially the real estate's fund, I mean, could we see additional divestments in the future?

And also, you comment that same store sales, March was the best month, of course we have the impact from the Easter holiday, but when you look at April, I mean, if it's fair to say that this recover will continue to happen? I mean, any view on how was the same store sales during April?

Mr. Sales: Hi Motta. Thank you for your questions. Basically on M&A we are actively looking at alternatives for both, investing and divesting. You know we have an option to buy an extra share in a mall that we own in Belem until the end of the year with the buyer that bought it from our previous partner. We'll keep this option and analyzing other alternatives that we have in the meantime.

We believe there are good alternatives, but the transaction execution has some challenges for the many reasons of any kind of M&A, and we will also be considering to reduce exposure in the assets that we believe we can find good partners to join forces to make the malls stronger or malls where we believe an institutional investor could be happy with the actual current returns, and we would be reallocating some of the capital for new ventures more in the line of redeveloping assets and turning around assets owned by other operators, is one of the best investment alternatives we have these days.

Regarding the tower at Belo Horizonte, we are still with a good occupancy but not that high enough to be able to attract any kind of investor, so we are still working on the rent, on the occupancy increase in this asset, and as soon as it is a better level, or we have a good offer, we are going to sell the asset or reduce the stake.

There is no rush because, as you know, we have plenty of cash in the balance sheet, we are generating good cash, so we are being able to use our current operations' cash to make the investments, we are not needing extra external capital for doing that, and we have been able to prepay some more expensive debts, and we are now negotiating the fixed part of our debt to try to reduce the total cost, and also at the same time not increasing more floating rates exposure. Ok?

Mr. Motta: That's perfect. If you could comment on the same store sales?

Mr. Sales: Ok, sure. Well, as you know, we don't anticipate numbers for the month, but I'll say the quarter is the number that means the most because, for example, last year Easter was in April and this year was in March and it makes a lot of difference, not just because of the sales for Easter, but just because of the activity in general, and we are seeing a good overall traffic in the malls, so expect that to keep turning into good sales and consequently in good rents.

The thing that I can anticipate is that leasing activity and the leasing demand is still very high. So we are having many meetings a day, not just 1 or 2, with groups of retailers trying to expand and looking for new areas, and I think that's the best thermometer of how the economy is doing and how the retail is behaving, especially the ones that are better structured.

Mr. Motta: Perfect. Thank you very much.

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

Mr. Mazini: Hi guys. Congrats on the results and thanks for taking my question

My question is on the difference between same mall sales, which came as 6.8%, and same are sales, which came as 4.3%. So we wanted to understand where the 250 bps difference comes from, if it's due to you guys increase in stakes in malls you already own or due to something else? Thank you.

Mrs. Guanabara: André, this is Daniela. How are you?

Same mall sales is actually total sales. And when we talk about same area sales is per square meter.

Mr. Mazini: Ok. So but the bulk of the difference is that 250 bps difference then is an increase in area? Because there was a little bit of a stake of [0:40:16 - unintelligible] back in Belem by the end of the first quarter, same 17, right? So it's pretty much area, a little bit of area coming in, right? Is that it?

Mrs. Guanabara: Both indicators are actually same. So they are taking into account the different stakes that we have in each mall, and we are considering the same stake for the 2 periods.

Mr. Mazini: Ok. Thanks Daniela.

Operator: Once again, if you do wish to pose a question, please press star 1 on your touchtone phone.

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 the interest again in the company. We are available for answering your questions later and our IR is happy to keep in touch if you have any other doubts. Thank you so much.

Operator: Thank you. This concludes Aliansce's first quarter 18 earnings conference call. You may disconnect your line at this time. Have a nice day.