ALIANSCE SHOPPING CENTERS

International Conference Call
Aliansce S/A
Second Quarter Earnings Results
August 9th, 2018

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to **Aliansce's second quarter 2018 earnings conference call**. Today with us, we have **Mr. Rafael Sales, CEO, Mr. Renato Botelho, CFO and IRO, Mr. Leandro Lopes, COO, Mr. Mauro Junqueira, CIO, and Mrs. Daniella Guanabara, Strategy and IR Director.**

We would like to inform you that this event is being recorded and all participants will be in a 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. To begin the presentation, I would like to give you some feedback on the company's performance in the quarter.

Starting on slide 3, please, despite the challenging political and economic backdrop we are facing once again in Brazil (specially since May), we ended the quarter with decent growth in our results, due specially to: our efforts to keep qualifying our tenant base; the gradual reduction of discounts; costs dilution; and the reprofiling in our financing structure. Our goal to gradually reduce discounts has been successful, so far, with post-billing discounts decreasing by more than R$2 million in the quarter.

This movement has not impacted the positive trend in the delinquency rate, which closed the quarter at only 1.8%. The lower revenue growth over the past 2 quarters with a temporary consequence of our commercial strategy to bring tenants with better sales potential and stronger payment capacity.

A better tenant mix leads to stronger sales and consequently to higher rents going forward. So, despite having granted special conditions in the beginning of the contracts, such as grace periods on rents and in common area charges, we are confident that this strategy is correct and will keep our portfolio stronger

The results are proving we are on the right track, provided we are already seeing an expressive growth of 6.8% in NOI and a relevant margin expansion, despite the current shy revenue stream. These figures have been achieved mostly due to the higher contribution of tenants to common area charges, which led to a drop of 20% in mall operating costs in the quarter. This reduction should continue throughout the year as more contracts mature. In the next quarters we will gradually see this positive effect translating into our rent revenues.

Provisions also dropped sharply, by 27%, reflecting the constant reduction of our delinquency in the last quarters. All these efforts, supported by our SGA 3.0, led to an 8.0% growth in our recurring EBITDA, with margin expansions of over 500 bps. In addition, our FFO grew by 23.7%.

Regarding sales, it is important to observe that during the second quarter some external effects impacted the flow of visitors and the level of sales in our malls. We highlight the follow: Easter Holiday, which in 2018 took place in March instead of April, as in 2017; the national truckers' strike in May; and the FIFA World Cup.

That said, total sales ended the second quarter with a positive result, showing an organic growth of 2.2%. Same store sales presented a small drop of -0.4%, or a positive result of 0.4%, when adjusted by Easter seasonality. The same store rent and same area rent indicators have both shown a positive result of 1% and 0.7%, respectively.

Moving now to slide 5, here we analyze our leasing activity, which again stood out. As we have been saying, our objective is to seek an adequate mix of tenants, which meet the demands of our customers and have a healthy payment capacity. Considering the past 12 months, more than 450 stores were leased, a growth of 13%. During the second quarter we have signed 85 new contracts, almost 15,000 m² in GLA.

The segments that presented the higher demand were fast-food, shoes and accessories and services in general. The portfolio ended the quarter with an occupancy rate of 96.1% compared to 95.7% in the second quarter of last year. It is important to emphasize, once again, that the same area sales of new stores have continued on a positive trend and remain above the average of the portfolio.

Finally, occupancy cost in the second quarter was 10.4%, a decrease of 30 bps compared to the same period of last year. The drop was a consequence of the improvement in sales during the period and our efforts to maintain common area costs at an adequate level.

Moving to slide 6, here I would like to provide an update about our debt reprofiling strategy. During the second quarter, we have concluded the renegotiation of nearly R$600 million in fixed-rate loans. The average cost of these loans was reduced to 9.2% from 10.4 per year, generating annual savings of approximately R$6 million.

Turning to slide 7, here we present the first expansion of Parque Shopping Belém, which will add 8,400 m² of GLA to the mall. After the expansion, the asset will have a total of 37,000 m², an increase of 29%. Construction will be carried out in 2 phases. The first phase, of 5,000 m², will be opened to the public by February next year. The second phase will add 3,400 m² to the initial project and it is still under development.

The first phase is already 100% leased and includes 3 major services operations. One is the best private college in the state, operated by Ser Education group; a graduate education institute; and a fitness center. The first phase should consume a total of 5.8 million in investments and will add approximately 1.4 million a year in NOI, not considering the indirect traffic improvement to the mall.

Now Daniella Guanabara, our Strategy and IR Director, will comment on second quarter results in more detail. Thank you all, I will be available in the question and answer session. Thank you.

Ms. Daniella Guanabara: Thank you Rafael, and good morning everyone. We will quickly go through the financial and operational highlights and open up for questions at the end of the presentation.

Turning now to slide 9, we present the Company's sales highlights.

As we mentioned in the introduction, sales in this quarter were affected by seasonal factors, such as the truckers' strike and the World Cup. Nevertheless, we recorded total organic sales growth of 2.2% in the second quarter. Our same store sales dropped 0.4% in the quarter. However, adjusting for the Easter effect, which was in March of this year and in April of 2017, same store sales would have grown by 0.4%.

On slide 10, we see the Company's financial highlights. Rents revenue presented a growth of 0.7% year on year, reflecting the Company's continued efforts towards reducing post-billing discounts, which dropped R$2.1 million in the quarter.

Parking revenue grew 2.8% year on year, limited by the impact of the truckers' strike that took place in May. Service revenue expanded 4% in the second quarter, in line with the portfolio's performance. With the combination of these effects, net revenue had a slight decrease of 0.4%. Excluding the effects of straight-line rent and key money, which are non-cash, net revenue would have grown by 2.3%, in line with our sales growth.

On slide 11 we can see that net delinquency reached 1.8% in the second quarter of 18, a decrease of almost 200 bps over the same period of last year. Analyzing the same indicator over the last 12 months, we see a fall of 120 bps when compared to the same period of the previous year. Gross delinquency has also registered a drop over the same period. Previsions, which accounted for 7.3% of net revenue in the second quarter of 2016, were reduced to 3.6% of net revenue in the second quarter of 2018, approaching pre-crisis levels.

Turning now to slide 12, the positive trend of our results is confirmed by the evolution of EBITDA and AFFO figures. The EBITDA margin was 74.4%, the highest margin for a second quarter since the second quarter of 2014. The expansion movement in the AFFO margin is even larger, reaching 42.5% in the second quarter, compared to 20.6% in the same period of 2016. This movement was a consequence of the progressive reduction of exposure to fixed rates, increased exposure to CDI floating rates, renegotiation of debts and improvement of the fiscal structure of the Company.

On slide 13, we show the Company's Capex in the second quarter of 2018, which was approximately R$35 million. Aliansce had invested R$3.3 million in maintenance and R$2.5 million in renovation of shopping malls, including the renovation of Via Parque Shopping's food court, which should be completed in the second half of this year. About 26 million were invested in expansions, mainly in Shopping da Bahia, Boulevard Shopping Campos and Parque Shopping Belém. The latter was already mentioned by Rafael at the beginning of this presentation.

The expansion of Shopping da Bahia involved the acquisition of a land plot next to the mall and will add a new branch of a citizen service center to the asset, in an area of 1,500 m^2. The operation should open to the public in early 2019. In Campos, we are adding an area of 2,200 m^2 to the mall with an anchor store and 5 in-line stores, which will be opened in the second half of this year.

We maintain our Capex expectation for the end of 2018 between R$90 million and R$130 million. This includes possible investments in expansions and renovations.

On slide 14 we will discuss the Company's capital structure. Following the debt repositioning strategy, we reached the end of the second quarter with approximately 43.5% exposure to the CDI floating rate, compared to 23%, 12 months ago. Consequently, our cost of debt has also been decreasing and dropped to 8.7% this quarter, compared to 11.6% in the second quarter of 2017. We ended the quarter with approximately R$400 million in cash, maintaining adequate liquidity levels, which enables us to follow our liability managing strategy.

I would like to open now for your questions, and our team is here ready to answer them. 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. If at any point your question is answered, you may remove yourself from the queue by pressing star 2.

Our first question comes from Luis Stacchini with Credit Suisse.

Mr. Stacchini: Hi, good morning everyone. Thank you for the presentation. Actually, I have here 2 questions for you guys. The first one regarding the trends of EBITDA growth on Aliansce. So we have been witnessing the growth in EBITDA coming a lot more from cost reductions than from rent increases. So my question to you guys is whether you see some additional room for cost reduction or if indeed, you know, the marginal growth in EBITDA would have to come from higher rents, and particularly for the assets in Rio de Janeiro and Shopping da Bahia as well, that are struggling to deliver any growth, if you guys believe that these assets... if you do have pricing power to pass through maybe a higher inflation going forward in these assets. If you could comment on that would be great.

And my second question would be regarding how much rent you guys still have locked-in that has not still started to flow through results, we have been witnessing somewhat higher occupancy rates, but you know, there are always some assets that are... some tenants and stores that are already commercialized, but the stores are not yet opened and maybe some tenants are still under grace period. So if you could provide how much upside trends we should see as the stores open up it would be great as well. Thank you.

Mr. Sales: Hi Luis, thank you for your questions. Well, first on your questions, I mean... well, the first one, regarding the margin expansion drove by reduction of shopping costs... shopping mall costs reductions and the NOI growth based on the efficiency, I would say that we will see this effect during the whole year, so the next quarters we will not still see impacting, especially comparing with last year because we are running in that level of better efficiency in converting the revenues that we have into EBITDA. We believe we are in this margin structurally and that the revenues that will grow in the future will then add value over that, but during the whole year we expect to see this cost reduction impact that's basically a consequence of occupying our assets with better tenants that are able to pay the common area charges and the taxes related to that.

Regarding Rio and Salvador, the realities are quite different because in Rio we have many malls, each one of them have a different positioning, and of course the regions where they are have different economic impacts from the current macroeconomic condition of the country in general.

So the majority... I would say, in Rio almost all of our malls are located in areas where they are the dominant player. We have only one mall that is located in an area that has more competition, nevertheless this mall is behaving quite well because we did a good positioning to extract value from being located in an area where we could provide a special sort of experience, retail, and all the combination of that is well done to provide services and solutions for families in a mall that is very convenient. This mall is Via Parque and this mall has been growing NOI during the last 3 years consistently.

The other malls are all located in areas where we are the leading player and the dominant player. There's no mall that has more market share in the first and secondary zone of catchable area bigger than our centers.

So that gives us the confidence that with the recover of the economy, we will be able to pass through the inflation and even real growth in rent. This is not the moment to do that because we are still in qualification process of our tenants, so that's why revenues are not reflecting that good position. What is reflecting the good positioning is the ability to reduce the costs because have a better occupancy and with a better mix. This occupancy being completed with good mix and good operators.

So to give you an example, in Bangu we are with a better occupancy, but not just in numbers, but also and mainly with better operations. We just opened some very interesting operations there.

Also in Rio we just signed with Kroton to open an Anhanguera University in the area of Grande Rio, there was one of the... in the report is still described as a vacant area, was a relevant vacancy, so it shows that our locations are still very attractive to operators and we are doing that in a very and strong way.

In Salvador our mall represents in the primary and secondary zone of the cashable area, we represent more than 50% of the retail activity in the 3 main areas that we basically have our customer base. So there we are a very relevant player. We believe the market is starting to recover, but in a slow pace, unemployment there is still very high, but we are seeing a good leasing activity again there.

We replaced important tenants that were in finance difficulties, and some groups that were in chapter 11 that we had to replace and we did it quite fast (if you need more details on that I think Leandro can give you), but in general we believe next year we will be done with a lot of this job in Shopping da Bahia, especially with the construction of the citizen service center that we are just starting now to contribute a lot with flow, and it's in an area that will not be hurdled for the traffic in the mall during the construction because it's in the side of it.

In terms of rent projection, we expect to see rent growth especially in the fourth quarter this recovery, but in the middle of the third quarter we are going to start to see revenue growth as well. It's going to be still a low figure of growth, we are not expecting a big jump in that line, but we are comfortable that the level of our margins will provide good growth on the results during the whole year, as in general as EBITDA or AFFO, because we are running that more efficient level for good. Ok?

Mr. Stacchini: Alright, so thank you very much. Have a good day.

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

Mr. Garcia: Good morning guys. I have 2 questions. One, you have emphasized in the earnings release that your strategy to improve the tenant mix by, you know, speeding up theses chains tenants, and as a consequence this has been negatively affecting the pace of revenue growth given these new tenants are getting to the mall with better conditions, but as a consequence are expected to be better for the long term.

So my question is: How do you expect to monetize this in the long term? Are you already including in these contracts, in these lease contracts, step-up clauses or it should be mainly based on higher expected sales that should trigger variable rents and improve the overall mall performance? So can you give us more color on how do you expect to monetize this better tenant mix going forward? So this is the first question.

And the second question is on occupancy and sales performance expected for the second half of this year. So if you are still seeing occupancy improving, what level do you expect to reach by year-end or next year, and in terms of sales performance have you seen any change in terms of performance so far, I mean, being more bullish on sales or not, so...

Mr. Sales: Hi Luis, thank you. First, on the revenues and the conversion of the new contracts into NOI and better rents, our contracts already consider some step-ups and some overage rents that when we do the new contracts we analyze the potential of sales of that segment and that specific operator in that specific market in order to approve these new contracts when we run our systems of projecting revenues for each segment and each operator.

So we can understand that this addition to the mix will contribute in the future to sales. And as a consequence, the sales will convert into rents. It can be by overage or by the gradual step up. We have the 2 effects, and in some cases we have both effects in the same contracts. It depends always, of course, in the capacity of the operator to capture that. So it's important to bring competent operators, and that's what we are focused on. Not just bringing in new occupancy, but with that confidence that these new players will operate and have good results.

With the level of occupancy that we are nowadays, considering the portfolio effect, not just 1 or 2 malls individually, we are already with better conditions to negotiate, and that's why our leasing spread is stable since last quarter, and the effect that we are seeing today in rents of the negative leasing spread of the past will not affect the leasing spread of the future because... the rents in the future because currently the spread is already in the neutral zone.

In the renovations we are with good figures, especially in contract renovations I mean, from malls where we're already seeing a real adjustments.

So we are confident that revenues will start recovery on topline, especially from fourth quarter on, but mainly the overall performance of the mall will support the growth of rents because this is not just that specific new tenants that we'll have more sales coming from that. All the environment in the mall will be more successful once you have a better mix and a better offer to provide to the public and the consumers.

On the occupancy side, we expect to end the year near 97%, so to keep gradually increasing occupancy. If it's not 97, it's a little shy of that, I wouldn't be concerned because we are now being able to negotiate in the pace that we want to sign the contracts.

For example, there are areas that are more difficult to negotiate, of course we will give some special conditions, but those areas now are much reduced, the leasing department did a great job of reducing big areas, so you can see by the example of our expansion in Belém that the first phase is 100% leased with contracts that are generating by themselves good IRR. So not just necessarily... we don't need to consider extra revenues and extra flow to see that returns being proved.

So that gives us the confidence that we are doing the right thing on proposing to the retailers and operators good deals, and at the same time offering the right combination for our consumers.

Sales performance, as you asked, is a very difficult projection. Of course, July compared to last year we expect to be... we saw a little bit better numbers, but we are not that confident yet because second quarter was really surprising for the negative side, because all the effects that we saw in the country for many reasons, right. We don't know how the election instability can... political instability due to the elections can influence the activity, but the good thing is that our malls will be better occupied, with better margins, with better tenants and well-maintained.

We have many nice expansions and renovations taking place, which will lead us to have better more attractive solutions for the public, so that's why we believe we are going to capture that in revenues soon.

Is it good enough?

Mr. Garcia: Yes, very, sure. Thank you.

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

Mr. Motta: Hi, good morning everyone. Two questions. First, regarding parking revenues, you guys commented on the release that a part of the increase was consequence of an increase on average ticket, so just wondering if it was easy to increase the prices here, if it has to do with a longer permanence of people inside the malls? Just to try to understand those impacts.

And also if you guys could comment about, I mean, what do you see as opportunities of M&A, I mean, that has the issue of course the press release regarding the talks with Sonae, so if there is any updates of additional comments that you guys could do on the call. Thank you.

Mr. Sales: Hello Motta. Thank you for your questions. Well, first, regarding parking, I think we are seeing especially with the lower activity that we saw in the second quarter, there was a reduction in the flow to the malls, in traffic, but it didn't seem that it was a consequence of price increases, but much more a consequence of the activity in general and the mood of the people and also the World Cup that reduces traffic.

And I think the truck strike was the main impact on that because of the fact of May. So we are not seeing people staying longer, we are seeing that the effect of our price readjustments was well received, there were no big complains on that, and we are comfortable with the price increase that we did the last quarters.

Regarding M&A, we have no updates to give in addition to what we released after the news regarding the discussion of the deal. It's a very interesting opportunity, as we mentioned. We hope we are going to be able to complete this transaction, but we are still far from having a conclusion. And as we mentioned, it was a preliminary discussion that is still taking place. Ok?

Mr. Motta: Perfect. Thank you Rafael.

Operator: Ladies and gentleman, as a reminder, if you want to ask a question, please press star 1.

Again, if you have 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 over to Mr. Rafael Sales for any closing remarks.

Mr. Sales: Thank you everyone for attending our call.

I want to give an update on some news of our Investor Relations team. I want to let you know that Luis Otávio Pinto, our Investor Relations Manager, is moving from the IR Department to Operations and he will take a management position at Via Parque Shopping. We are happy to give Luis this opportunity to have a different kind of experience in his career and to keep contributing to the company. We also wish all the success in this new endeavor. And we welcome Luiza Casemiro that is promoted to the position of IR Manager in our company and we are very happy with all the evolutions we are seeing in our team.

So please keep in touch, let us know if you need any further clarifications in our results and in the company's strategy. Thank you.

Operator: This concludes Aliansce's second quarter 2018 earnings conference call. You may disconnect your lines at this time. Have a nice day.