



**International Conference Call
Aliansce S/A
First Quarter Earnings Results
May 9, 2019**

Operator: Good afternoon ladies and gentlemen. At this time, we would like to welcome everyone to **Aliansce's first quarter 2019 earnings conference call.**

Today with us, we have **Mr. Renato Botelho, CFO; Mr. Leandro Lopes, COO; Mr. Mauro Junqueira, CIO; Mrs. Daniella Guanabara, IRO; and Mr. Fabricio Guimarães, Financial and Planning 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 this 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 **Mrs. Daniella Guanabara**, who will start the presentation. **Mrs. Daniella**, you may begin the conference.

Mrs. Daniella Guanabara: Good afternoon everyone. Thank you for your interest in Aliansce.

We begin our presentation by giving you some feedback on the performance this quarter, starting on slide 3.

We closed the first quarter 2019 with total sales growing by 5.4%, keeping up with our growth trend. February was a strong month, with the highest growth performance of the quarter, while March was affected by seasonal Easter sales, concentrated in March last year and April this year. This mismatch represented a difference of almost 1 percentage point in same-store-sales and same-area-sales in the quarter. These indicators that were up by 2.3% and 3.0% in first quarter of 19 would have grown 3.3% in same-store-sales and 4.0% in same-area-sales, if adjusted by Easter.

As for results, net revenue expanded by 7.8% year-on-year in the first quarter of 19, following the same positive trend since the third quarter of 2018. This result came from major hikes in rent, parking and service revenues, and affected gross margin, that expanded by 280 bps year-over-year.

Our same-store-rent were up by 5.3% in the first quarter, while same-area-rent grew 5.2%.

On costs, after an important drop in 2018 - with the implementation of the SGA 3.0 model - mall operating costs are now at a more stable level versus 2018. At the same time, provisions for doubtful accounts recorded a major reduction of R\$3.2 million, or 38.9% in the quarter. The combination of this led to a 6.7% year-on-year growth in Ebitda.

We have prepaid and renegotiated interest rates on several debts since March 2018, but the financial results for the first quarter of 18 hadn't yet capture most effects from this strategy. So, Aliansce's financial expenses decreased more than 20% in the first quarter of 19, generating a significant expansion in AFFO, of 39.8%.

The average cost of debt of Aliansce reached 8.4% in the first quarter of 19 and ended the quarter with 51.4% of exposure to floating rates, in line with targets set early this year.

In February Aliansce received R\$39 million related to the second tranche of the divestment in Boulevard Corporate Tower, made in the fourth quarter of 18, and the net amount of R\$12.6 million for the earn-out of the divestment of a 24% stake in the Caxias Shopping, made in in the fourth quarter of 17. Thus, the company's leverage was then reduced to 3 times net debt / Ebitda.

In early May we also concluded the acquisition of an additional stake of 4.9% in Shopping Leblon and reached 30% stake in the asset. Considering the expected NOI for the next 12 months, the cap rate of the transaction is 6.7%.

Now let's quickly go through the financial and operational highlights and open up for questions at the end of the presentation.

Moving now to slide 5, here we analyze our leasing activity.

A total of 516 stores were leased in our malls in the last 12 months, which represents a growth of over 11% year on year. The stores replaced since the first quarter of 2018 had an expansion in sales per square meter of almost 29%, which is well above the average of our portfolio.

Aliansce ended the quarter with an occupancy rate of 97.1% compared to 95.9% in the first quarter of last year, which is a growth of almost 120 bps. Our occupancy cost during the first quarter of 19 was 10.9%, which is stable compared to the first quarter of 18. The 6% hike in rent revenues in the first quarter offset the sales growth during the same period, allowing the occupancy cost to remain stable.

Turning to slide 6, here are the sales highlights of the company. In the first quarter, total sales reached R\$1,4 billion, a 5.4% increase year on year. Same-store-sales reached 2.3%, while same-area-sales, that include the effect from mix qualification, grew by 3.0%. Excluding the impact from the Easter holiday, same-store-sales and same-area-sales were up by 3.3% and 4.0% in the first quarter of 19, against 3.0% and 3.2% in the first quarter of 2018.

On slide 7 we see the financial highlights for the company's revenues. Rent revenue accelerated during the year, growing 6% in the first quarter. The hike was mainly driven by higher minimum rent, that grew 4.6%, or R\$3.6 million in the first quarter of 19. The Mall & Media line also increased by 18.3% over the first quarter of 18, mostly due to the positive performance of kiosk revenue.

Net revenue increased 7.8% in the first quarter of 19, reflecting the positive impact from parking and service revenues, each growing by 10% and 7.7%, respectively. Service revenues have been positively affected by the development and leasing of a third-party mall in the state of Bahia.

On slide 8 we see that the downward trend of net delinquency has persisted, reaching 4.3% in the first quarter of 19, against 5.9% in the first quarter of 2018. In the last 12 months, net delinquency decreased by over 100 bps, reaching 2%.

So, provisions for doubtful accounts have also dropped this quarter, by almost 39%, or R\$3.2 million. In the first quarter of 19, provisions accounted for 3.6% of net revenue, the lowest level for a first quarter since the first quarter of 2015.

Turning now to slide 9, we see the positive trend of our results with Ebitda growing by 6.7% and AFFO by 39.8% in the first quarter, year on year. Ebitda was positively affected by higher net revenue and lower provisions. The debt prepayments and interest rate renegotiations made in 2018 have continued to benefit the financial results of the company, with AFFO up by 39.8% in the first quarter of 19, deriving mainly from the R\$10.6 million, or almost 21% reduction in



financial expenses between the first quarter of 18 and the first quarter of 19. AFFO margin increased by over 900 bps year on year, reaching more than 39%.

On slide 10 we show the breakdown of Capex, that ended the first quarter at R\$29.2 million. Out of this total, Aliansce invested almost R\$4 million in maintenance and R\$16 million in renovation projects in its assets, mainly in the extensive renovation of Shopping Grande Rio, that includes a retrofit of corridors, restrooms and food court.

Expansion Capex reached R\$6.6 million, mostly concentrated on the expansion of 3,200 square meters in Shopping Grande Rio, opening in the second quarter of 19, and in Shopping da Bahia, that inaugurated a customer service center in the mall's mix, in early 2019.

Other investments include the shell work to add a Renner anchor store to Bangu Shopping, that will open in an area of 1,250 square meters. We expect that Capex in 2019 will range between R\$100 million and R\$140 million, including possible investments in expansions and renovations.

Finally, on slide 11 we discuss the capital structure of the company. We ended the first quarter of 19 with 51.4% of exposure to the CDI floating rate, reaching the adequate balance among debt indexes that we were aiming for. With the prepayments and renegotiation of rates, made since March 2018, financial expenses have decreased, and our cost of debt has remained at a low level of 8.4% this quarter versus 8.9% in the same period of last year.

In February we received the payment of the second tranche for the Boulevard Corporate Tower divestment, in the amount of R\$39 million. In March we received an earn-out of R\$12.6 million, for the sale of 24% of Caxias Shopping, in the fourth quarter of 2017. We thus ended the first quarter of 19 with a cash position of nearly 650 million.

Now I would like to open for questions. Thank you.

Question-and-Answer Session

Operator: Thank you. The floor is now opened for questions from investors and analysts. If you have a question, please press star one 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.

Once again, to ask a question just press star one.

Our first question comes from Tito Labarta, Goldman Sachs.

Mr. Labarta: Hi, good morning and thanks for the call. A couple of questions. First, in your Ebitda margin we saw some good expansion compared to last year but seemed to stabilize compared to... actually, seemed somewhat stable compared to last year. But I just wanted to get a sense, do you think this would expand your Ebitda margin more given sort of the revenue trends that you're seeing or is it currently 66%? What we should expect?

And then the second question is in terms of e-commerce, you are seeing a lot of your competitors making announcements and partnership with Delivery Center, iFood, things like that. Just wanted to get some thoughts on what your strategy is there, or what are you thinking or know you expect to move forward there. Thank you.

Ms. Guanabara: Hi, Tito, this is Daniella Guanabara, thank you for your questions. I'll try to answer the first one. In terms of Ebitda margin, I guess it's typically for the first quarter of this year, we had a good drop in provisions for doubtful accounts. We do not expect this to keep happening throughout the year because if you compare with the first quarter of last year, it was still quite high in terms of provisions for doubtful accounts, and for this year the first quarter improvement was quite good. But for the rest of the year, we expect this line specifically to remain in line with what we reported from the second quarter of 2018 on.

And also, if you compare mall operating costs, we have already reached a much lower level than we were in 2017, so throughout 2018 we have reduction in those mall operating costs, we also had reduction in discounts, specially the post discounts, so we do not expect that much reduction in costs throughout 2019. So, my opinion is that the Ebitda margin should be in line with what we reported by the end of 2018.

So, now turning to answer the second question regarding e-commerce. For now, we are with a pilot of delivery center in our mall in Barra, Via Parque. Out of those food court shops, we had 16 operations working with delivery center. On average the increase in sales was about 8% when you compare before we had the delivery center, and we are talking to other operators to try their operations in some of our malls. But we haven't decided yet which one we are going to choose or if we are going to use like a combination of those different services.

And in terms of an e-commerce platform or website to try to sell for our malls, we don't think right now this will be our strategy. We are also working with *Fábrica de Startups*, which is a startup accelerator. We are now accelerating on average of 15 startups to try to find solutions for problems that we already identified for Aliansce. So, by the end of the year we expect to see some new solutions coming from that *Fábrica de Startups* initiative.

Mr. Labarta: Ok, thank you, that is very helpful. Maybe if I could ask a follow-up. Maybe thinking a little bit more longer-term, revenue trends we are seeing pretty



much across the industry mid to low-single digits. [unintelligible], I think it potentially continues to improve in Brazil, some of the investors that you are making... how should we think about maybe a bit longer-term revenue growth? Do you think you can get to double digits within a few years, or what are you thinking in terms of growth potential beyond this year?

Ms. Guanabara: Hi, Tito, specifically this year we still see sales at a low level. We are expecting the economy to recover, we see demand for spaces in our malls, but we know that both consumers and also the tenants, they need the economy to improve more, to become more confident, and for the sales level to improve.

So right now, is quite difficult to say that we have a lot of room in a near term. Of course, more for the longer term, if we see better economic conditions, we do expect to see revenue growing above inflation, which was the case before crisis in Brazil. But I guess we are still far away from seeing sales in a very strong growth level, so we are still waiting to see.

Mr. Labarta: Ok, thanks Daniella.

Ms. Guanabara: Thank you.

Operator: Once again, if you want to pose a question, please press star one.

This concludes the question and answer session. At this time, I would like to turn the floor back to Mrs. Daniella Guanabara for closing remarks.

Ms. Guanabara: Thank you very much. I expect to see you all next quarter.

Operator: Thank you. This concludes Aliansce's first quarter 2019 earnings conference call. You may disconnect your line at this time. Have a nice day.