



Conference Call Transcription
1Q21 Results
Aliansce Sonae (ALSO3)
May 13th, 2021

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Aliansce Sonae's first quarter 2021 Earnings conference call.

Today with us, we have Mr. Rafael Sales, CEO; Mr. Leandro Lopes, COO; Mr. Carlos Correa, CFO and Mrs. Daniella Guanabara, Strategy and IR Officer.

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 Sonae's IR website, at ir.alianscesonae.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@alianscesonae.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. First, I'd like to thank you all for your interest in Aliansce Sonae's results.

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We have now concluded the first quarter of this year and once again we face the consequences of the COVID-19 pandemic in Brazil. Especially in March, we had to close most of our malls, following the restrictions imposed by governors and mayors in almost all major cities in Brazil. We have already brought to the authorities' attention that shopping malls are controlled and safe environments, in which protocols are strictly followed.

In the months that the malls were open before, we did not see any increase in the number of cases or fatalities due to the pandemic. When the number of cases started to grow in January, it was possible to easily correlate the increase in infections with a more relaxed behavior in recreational activities or family events. There is no correlation between the increase in cases in shopping mall operations from our experience so far.

Like all difficulties, our shopping malls proved to be once again very valuable destinations to our consumers, both in person and online. Currently, we have all of our malls open again. I believe that with the advance of vaccination campaign, the worst is already behind us. From now on, we expect a closer to normal resumption of activities. We also expect sales and demand for services in our malls to begin a strong recovery, as we have seen in the fourth quarter of last year.

This quarter, our sales, our leading department, had a very strong performance, leading to a high and healthy occupancy rate of over 95%, allowing us to keep offering very good experiences to our consumers once the malls are reopened.

In addition, despite the difficulties that our tenants are facing, we continue to generate reasonable operational cash flow, which reached R\$110 million, enough to cover all financial obligations and investments in the period. We ended the quarter with cash balance of R\$1.4 billion and still low leverage of 1.2x net debt/EBITDA.

It is also worth noting that we were open on average for 74% hours of regular time, and total sales reached about 70% of the first quarter of last year. Considering this scenario, the decline in revenues ended up being relatively small given the additional discounts to support our tenants during the closure period.

Even affected by operational restrictions, EBITDA and FFO reached 82 million and 41 million in the first quarter, respectively. Here, I'd like to highlight the great effort from our team to control costs and expenses, with a focus on the 20% drop in general and administrative expenses. This is already a consequence of the integration synergies after the merger that created our company.

Our result was also highly impacted by the provisions to cover delinquency risk that the crisis may still bring. In addition to the regular provisioning defined by the

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company's policy, we booked an additional R\$6 million provision related to future receivables from tenants that granted discounts.

One of the factors that certainly contributed to our excellent occupancy level was our physical to digital convergence strategy, strengthening our Omnichannel initiatives. Today we already have 4,900 retailers offering products in our online platforms. Another interesting initiative that we bring today is the opening of our first PEG Hub, at Parque D. Pedro. It's a very important logistic solution that will first further strengthen the leading position of the mall within its market, and will improve consumer experience as an overall solution, and I'll give you some details ahead.

This quarter we are also bringing a case study of another very strong mall in our portfolio, the Manauara Shopping. This mall is located in a city that was strongly affected by the pandemic in the beginning of the year, but then, with the vaccination, the market there was reopened earlier and now we can see the operational metrics are right above last year and even higher than 2019. The yellow represents a more complete study ahead.

Moving now to slide 3, here I want to mention the very strong and very healthy occupancy rate that we still remain above 95% this quarter. This rate is very high, as I mentioned, compared to the industry average, especially considering that we were just ending the worst seasonal period of the year, that is the first quarter, for occupancy.

This is a very important achievement and confirms the strength and resilience of our portfolio. Another very interesting fact is the number of new contracts signed by our leasing department. Despite all the difficulties, our team managed to sign 79 contracts this quarter, an even greater volume than in the same quarter last year.

On sales, on slide 4, complementing what I previously mentioned, we can see that operations were impacted the mostly in March, but when you observe the northern region, we can follow a much positive track, showing improvements in the last month of the quarter, driven by the sharp sales recovery in Manauara, as I mentioned.

On the digital front, on slide 6, in the past quarter we have been talking about these logistic solutions that we were implementing, and today we already have the first PEG Hub complete and fully operating since April in Parque D. Pedro. This innovative project connects selling platforms and products delivery integrating the physical and digital environments of both the mall and tenants.

In this ecosystem, the consumer has an exclusive area to withdrawal through drive-thru or lockers the products that they purchased online. The PEG Hub also addresses one of the main challenges of digital retail; the reverse logistics, with fitting

rooms to try on products acquired online, enabling the exchange or return in the same space, reducing friction and operation costs for the tenants.

In addition to the PEG Hub, our malls will also have convenience points for the customer inside the mall to collect and exchange products purchased online as well. We remain focused on developing solutions that increasingly improve the customer experience and our tenant's profitability.

I will now turn to Dani. Thank you very much and later I will return to the question-and-answer session. Thank you.

Daniela Guanabara: Thank you, Rafael. Good morning everyone.

On slide 8, we present the company's cash flow highlighting the operation cash generation of R\$110 million, which was enough to cover all funds allocations throughout the period, even considering the most stressed scenario.

The company's leverage remains at a low level of 1.2x net debt/EBITDA, confirming the strength of our balance sheet allowing us to take advantage of investment opportunities, such as the acquisition of an additional 21% stake in Shopping Leblon, which was concluded in April.

On slide 9, the net delinquency reported in the first quarter was 13.6%, mainly reflecting the drop in sales, which impacted the payment capacity of some tenants. It's worth mentioning that the first quarter has historically presented a seasonal sales deceleration following Christmas.

The PDA was also chiefly impacted by the effects of the second wave of COVID-19, which turned into a setback to the recovery path observed in the last two quarters of 2020.

On slide 11, we will talk about our commitment to sustainability, bringing some recent outstanding campaigns. We created at Caxias Shopping an exclusive space named Eco House to increase visibility and boost collection of recycled material.

At the beginning of the school year, our malls mobilized to collect school supplies and financial contributions to provide internet connection for public school students. We also held collection points for PET bottle caps, which are donated to partnership institutions and reverted to the purchases of wheelchairs and fast food for abandoned animals.

We reaffirm our commitment to encourage culture by sponsoring the MAM Rio 3D project, which is the Modern Art Museum of Rio de Janeiro. At Aliansce Sonae, we

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believe in the transformational power of art and in the use of technology to democratize access to culture.

During the first quarter of 2021, road renovations were completed in the surroundings of the Shopping Grande Rio. We invested R\$1.7 million in construction and donated 330,000 seedlings of native plant species, in line with the best sustainability practices and lifestyle aiming at the local population's well-being and quality of life.

For Women's Day, we hosted a live streaming with a special guest, the ambassador of our campaign *Empodera Ela*, Jaqueline Goes PhD. Jaqueline is the Brazilian biomedical and researcher who led the team that sequenced the Coronavirus genome in Brazil in 48 hours.

The campaign promoted a role of women in health and science in recognition of the relevance in combating the pandemic. You can access the content of this conversation through the QR code available in our earnings release and the results presentation.

Moving now to slide 13, we present updates on our newest projects at Parque Shopping Maceio and Uberlandia Shopping. In Maceio, we signed in 2021 two additional short-term projects. In February, we signed a purchase and sale agreement with Construtora R Pontes, which specializes in high-end assets to develop residential buildings.

In April, we sold a land plot to FII Hospital Unimed Maceio to build a highly complex hospital with 140 beds and with future expansion potential. With these projects signed, two land plots are available for sale in Maceio, and we still have additional potential at the mall's own structure.

In April 2021, we signed a purchase and sale agreement for another short-term project at Uberlandia Shopping. The buyer is Perplan, a high-profile reference construction company headquartered in Ribeirão Preto and the project consists of two residential towers. Additionally, the hotel that was announced in the second quarter of 20' earnings release is under construction, and the mall has yet another land plot under negotiation.

Moving now to slide 15, I will detail the case study of Manauara Shopping, which Rafael mentioned at the beginning of the call. Manauara is one of the strongest malls in Aliansce Sonae's portfolio. Since the first reopening in June 2020, the mall, which is a leader within its catchment area has been recording outstanding performance, a true resilience example.

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Located in a city critically affected by the COVID-19 pandemic, the mall posted a sharp recovery after each reopening process with sales growth for consecutive months.

The case of Manauara Shopping strengthens the thesis that leading malls in the markets where they operate will recover from the economic effects generated by the COVID pandemic at an accelerated pace, becoming even stronger and more influential as the health crisis mitigates by the mass vaccination.

Thank you all, let's now open for the Question and Answers.

Question & Answer Session

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

Our first question comes from Tito Labarta, Goldman Sachs.

Tito Labarta: Hi everyone, thank you for the call. Just a couple of questions. The first is, can you give an update on how sales and operating hours have been evolving in April and May, you know, just the restrictions you saw in March and April.

And then second question, I guess in terms of your occupancy rate, it is still holding up pretty well despite the pandemic. How do you see that evolving from here? Do you think that can increase, any concerns you have on that? Because it sounds like pretty long one, I just want to get some color on how that can evolve for the rest of the year. Thank you.

Rafael Sales: Ok, Tito. First, on the occupancy front, we believe that we found the bottom here already, the recovery is clear, and the demand is strong among the other players, retail partners are growing a lot and we are seeing well-capitalized groups with recent IPOs and also some investments from private equity groups, so some opportunities are rising I guess because of the crisis.

And we are seeing that as a good opportunity to grow and we are closing good leasing contracts with these kinds of new profiles that are growing in Brazil. On the opening hours, I will pass to Dani, she has the information.

Tito Labarta: Hello, are you still there?

Daniella Guanabara: I'm sorry, I was talking on mute here. Sorry. In April, we had about 60 to 65% of opening hours, which is improving right now. Now we have the

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whole portfolio opened.

We are still facing some restrictions in São Paulo specially, so this is the region which is suffering the most since the reopening this year, but as you could see in the result in the first quarter, both the northern region and also Rio are picking up pretty well.

We had the case of Manauara, which shows us the capacity of what a mall can do when opening with the whole 12 regular hours, and also with no restrictions regarding capacity either for restaurants or services. So, we are conscient that we should improve hours and also sales going forward, especially from May on.

Tito Labarta: Ok, Ok.

Rafael Sales: Just completing one point here that I remembered. Last year, there was a big concern about the effect of the corona voucher, in fact, the government support in income for families, and the three main better performance cities that we have today are Manaus, Belém and Maceio, all those are located in the North and Northern region, and they are pretty much in line with 2019 or a little bit above since they reopened at full.

So, we think it's a good kind of a proxy that even without the corona voucher, the recover when we have normal hours are more close to normal, but of course, we don't know yet how it's going to perform in South East, because São Paulo had much more restrictions than any other place in Brazil, so it's difficult to predict if they will be similar, but at least in those regions, the performance has been quite similar to 2019.

Tito Labarta: Alright, thank you, that is helpful. Maybe just one follow-up, you know, on the leasing activity, you know, you mentioned this increase compared to last year. How are leasing spreads on that? Are you able to increase these fronts?

Rafael Sales: Yes, we are still with positive leasing spread since last year, so despite the crisis, because we had prepared our planning of new leases, we reassessed that during the pandemic, and since we didn't have that big growth in vacancy, we were able to keep a 3 to 4% leasing spread positive, and that's what we saw this last quarters as well.

Tito Labarta: Ok, thank you very much.

Operator: Our next question comes from Nicole Inui, Bank of America.

Nicole Inui: Hi, good morning everyone, thank you so much for the call. Just a follow-up question on the leasing activity. Can you talk a little bit about the type of

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tenants that are coming in? Is this similar to what we have seen, you know, in the past, or we are seeing new types of tenants coming in? I'm talking about, you know, in terms of services or other areas. And any changes in terms of the contracts, you know, in terms of duration, in terms of the inflation indicator that you are using for these new contracts. Thank you very much.

Rafael Sales: Nicole, pretty much the same in terms of terms of the contract, those contracts are commercial contracts, regular ones, mainly base rents, with minimum rent and a small overage rent as natural in Brazil.

Also, we have in terms of the profiles in segments, since the fourth quarter we had a different trend coming up, there is more fashion, new contracts with fashion brands, there was for a while a lower, under performer in terms of exposure. I think that was because there were so many years where we saw apparel and fashion being affected here, negatively affected, that we are not seeing that anymore.

We are still seeing a lot of services, especially health care treatments and aesthetics treatments, and those are the main performers. Of course, fast food is always one of the main players because there is a lot of change in the food courts, but that's natural.

So, pretty much a more normal base and just a little bit smaller pace in terms of signing contracts and we think that was because of the uncertainty about the reopening. And now with the reopened portfolios and all malls getting back to normal, we are seeing a normal way in pace of signatures as well.

Nicole Inui: That's great, thank you very much.

Operator: As a reminder, if you wish to pose a question, please, press start *1 on your phone.

Please hold while we pose your questions.

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

Rafael Sales: Thank you everyone again for your interest in Aliansce Sonae results. We will be available to answer the questions during the next months. Hope you get in touch, bye-bye, thank you.

Operator: Thank you, this concludes Aliansce Sonae's first quarter 2021 Earnings conference call. You may disconnect your line at this time. Have a nice day.