International Conference Call
Iguatemi S/A (IGTI11)
Earnings Results 4Q23
February 21st, 2024

Operator: Good morning, everyone, and thank you for holding. Welcome to the Iguatemi S/A conference call to discuss the results for the fourth quarter 2023. Present with us today are Ms. Cristina Betts, the Chief Executive Officer, and Mr. Guido Oliveira, Vice-President of Finance and Investor Relations Officer and Investor Relations Officer.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company presentation. Ensuing this, we will go on to the question-and-answer session when further instructions will be provided.

This event is also being broadcast simultaneously via webcast and can be accessed at Iguatemi's IR site at www.iguatemi.com.br/RI, where the presentation is also available for download. You can flip through the slides at your own convenience. Please be advised that any forward-looking statements that may be made during this conference call regarding Iguatemi’s business prospects, projections, and operational and financial targets are the beliefs and assumptions of the company management and are based on information currently available. Forward-looking statements are no guarantee of performance. They involve risk uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that overall economic conditions, industry conditions, and others may impact the future results of Iguatemi and lead to results that differ materially from those expressed in such forward-looking statements.

We would now like to hand over the presentation to Ms. Betts, who will begin the presentation. You may proceed, Ms. Betts.

Cristina Betts: Good morning, everyone. It is a pleasure to be with you again to speak about the fourth quarter, which was a fantastic quarter for us with growth on all fronts with consistent results and inaugurates a very positive 2024.

Now to speak about our highlights, we had a very positive performance in 2023. We reached 19 billion in total sales, an increase of 11% vis-à-vis fourth quarter 22, we had 6 million sales for the quarter, an increase of almost 12%, 7 points above inflation, a positive for the year and the quarter.

Guido will later speak about lease and occupancy rate when we speak about P&L, but we would like to underscore what we have said in other quarters. Our performance in occupation, a strong increase in commercialization during the year and we ended the year with an occupancy rate above 95%. This is an average, once again, 1 percentage point above the third quarter of 23 and 1.6% above the fourth quarter 2022. This is the best performance since 2018 and we have referred to the increase in the occupancy rate and we will dwell on this further ahead. Now the increase was positive and we, of course, are complying with our soft guidance with the market.

What I would also like to highlight in a more generic way is that we reached the fourth quarter as we had committed to do with a slightly positive result in the 365 retail operations as part of the results of the fourth quarter, which are positive. We have the retail part, stores operated by retail and 365 were positive above zero. So this is something that we had promised to do and were able to deliver at the end of the year.

As part of the work with 365, we worked with a reduction as you were able to follow up on the staff of the company and we outsourced several roles for Infracommerce, and in the second half of the year we had the migration of the platform to VTEX, helping us through these to joint actions and weighing the SKUs that we have in the portfolio enabled us to reach the breakeven in the operation, and this is what you can expect going forward.

Now to speak about the year, it is important, and we will show you a more detailed graph that we are delivering our guidance, the growth of shoppings, EBITDA, and of course, total revenue. And we're going to speak further ahead on the guidance we're offering for 2024, allowing us room to have significant growth in the coming year, above and beyond the positive results of 2023.

We also had the approval of the Board of an advance of 50 million in dividends, and we are now going to present this, submit this to the assembly for approval for the year of 2024 for dividends of R$200 million, which is a significant increase in dividends. In 2023, we paid 110 million in dividends.

Now, to move away from the P&L, we concluded in this quarter the sale of a fraction of the Iguatemi Campinas, which bolstered our results with 25 million to quarterly results. And we're going to build another tower of somewhat more than 6,000 square meters, and we should have 1,700 people passing through this complex. This is part of our strategy of densification of the environment and better qualifying the flow of our enterprises.

In 2023, we had two additions of the Iguatemi Collections as part of the Iguatemi One program. The second campaign was held between August and November of 23. We had an increase of 83% in sales and a growth of 18% in average expenditure of clients. When we compare this to the Collections of 2022, we had 70,000 clients participating in this action.

Of course, this is of the utmost importance because it allows us to understand the final customer, we can understand the operations of stores as well as that of clients.

In terms of events, we had several special events. I would like to highlight only a few, it's impossible to speak about all of them in the call introduction, but as a sequence of the Barbie Dream House that we had midyear in the JK Mall, we had the first official store of Stranger Things that was a success. In JK, we had the seventh edition of the Iguatemi Talks Fashion. It's important we connect to fashion, trend, consumption. This is a truly fantastic event that operates in a hybrid way, obviously allowing ever more people to participate in the event and become updated in the basis of our business.

We always have the participation as in all events of the São Paulo Fashion Week. Iguatemi São Paulo became the stage of some of these fashion shows. We had Paradise, Apartamento 03, and others participating, so this reinforces our participation in curatorship of fashion, something that is very important for our business.

In the quarter, we're quite proud and content with the fact that for the first time Iguatemi is part of the ISE of B3, a national benchmark in sustainability. We have worked hard to attain that inclusion in the ISE, this thanks to our project, and of course, this is very important for us to speak about what you are following up on the beginning of the works of the neighborhood that we will begin to build in 24, Casa Figueira, around the Iguatemi Campinas, and the ESG part received the AQUA Sustainability Certification because of our commitment to certify our enterprises.

What we also did as part of this agenda, which for Praia de Bellas is important, is to connect the Pria de Bellas Mall to the Guaíba waterfront. This is an unprecedented project, making the passage between the shopping and the waterfront to become truly dazzling. It is a postcard of the city, the reuse of the space and the beautiful scenery that you have in the Gauíba River. And we have stops for dogs and other stops along this waterfront crossing.

Now, I would like to end here by saying that the year 2023 was a very busy year. We did a multiplicity of things, we had several action plans, of course, to attain the results that we are delivering today, and this shows the resiliency, the consistency of our company, our positioning in the industry. And we begin 2024 very well-positioned to have an incredible year.

I will give the floor to Guido to refer to financial results, and then we will return with questions and answers.

Guido Oliveira: Good morning, everybody. And I begin on page 6 to speak about the company's financial results. Cris has already spoken about the strong sales in 2023, 11.7, same area stores, 11.4%, which shows you how the work of our team is focused on enhancing occupation, bringing about stronger sales. And of course, this will bring us better consequences in terms of range because we will have an increase in leases.

Same store area with a slight drop, going to 6.6. The real rates on same store rates is very aligned, we were at 6.3 and we go down to 5.4. And it shows you the strength of the company and the positive spread and in the reduction of discounts at presently is at much lower levels vis-à-vis the years before the recession. So we're granting discounts much less at present.

What is also important is to show you the occupancy rate. We have a soft guidance of 95%, we did reach 95.1% at the close of the year, and we spoke a great deal about our activities in the retail market and we were able to attain our guidance in terms of occupancy. And this shows the strength of the tenants regarding our portfolio. And finally, default levels are at a very healthy level, ending at 1.2 and accounts receivable dropping during the last 6 months to receive leases and overage with a reduction every quarter, showing us the recovery of the leases through which we were able to collect throughout the pandemic. So we have recovered all of our losses.

We go on to page number 8, showing you the results without the streamline effect and the share swap result. It shows you a considerable growth of EBITDA of 30% vis-à-vis the fourth quarter of 22. We reach an EBITDA of 236 million and for the year 960 million. Net revenue growing to 135 million and in the 12 months 300 and some million, a growth of 47.3%. FFO with a margin of 53.8% in the fourth quarter, 137 million, and for the 12 months going beyond 560 million with a margin of 43% for the year. Very strong recovery, therefore.

Now, if we look at the retail part, as Cris mentioned, quarter on quarter, we have been working very efficiently to reposition 365. We now have a breakeven in the operation. In the last quarter of 23, the third quarter, we had a negative EBITDA of 3,100, a negative margin. We are now at 4,700 million with a margin of 13.4%.

Both operations were positive, 365 once it was repositioned with a focus on 100-150 brands, and the retail part, that was a true success in December. One of the brands that we would like to highlight is the Birken Store that operated throughout December with long lines at the store because of the strong sales. We also had strong sales at Polo and other stores with a strong recovery in November and December. And going forward, there will be positive quarterly results.

We go on to the following slide, slide number 10. If we look at the mall result, a very strong result with a margin of 18%, and for the 12 months a margin of 84%. Another thing we promised that we have discussed quarter on quarter is the reduction of costs and expenses. In the 12 months of 23 vis-à-vis 2022, we had a crop, we didn't have a more significant drop because in the fourth quarter we had an increase of 3 million because of the increase of provisions for P&L, as we had obtained the KPIs internally in the company. Nevertheless, you do see the reduction in costs and expenses, which was something decisive for our results.

We go on to gross revenue, a growth of 9.8 of our revenues. The fourth quarter of 23 with a significant growth in terms of parking, a growth of 20%, and for the year a similar growth. It shows you a greater flow of 23 vis-à-vis 2022. The flow of January of 2024 is higher than what we saw in 2023, and of course, a repositioning of what is charged. When we look at leases, we had a growth of 2% of IGP-M, a transfer of 0%. But because of the lease spread and the closing of the vacant area, this was important for us, but it is also important to mention that the overage, which is the percentage of lease, grew 23% during the quarter and 30% during the year. It's more tenants paying overage, and this shows the strength of the sales vis-à-vis the other quarters. Our portfolio doing very well, but still paying overage.

And temporary rentals, they still grow throughout the year, making the most of the kiosk areas, areas for events, the area separated or allocated to media with a growth of 28% for the year and 34% for the quarter.

We go on to cost and expenses. It is important to show you that when we compare cost and expenses with the fourth quarter of 22 and the full year 2022, it goes from 28.7 to 38.2. And we go from 28 to 32.2. An important work in terms of efficiency, work that we carried out during the entire year. We did state that in the fourth quarter, we would begin to stabilize the effects and that the recessions that had appeared in the third quarter would not appear in following quarters.

We look at our balance. We had a deleveraging of 0.26 in the ratio of 2.3 to 1.91 for net debt EBITDA, increase of net debt increasing to 105 because of the reduction of CDI and the CDI of some of our debts, so the proportion will not be similar.

Now, if you calculate the cost of CDI, the debt will have remained at the same level with a cash of 1.6 billion, which means that we're very comfortable. When we look at our amortization curve going forward, the cost of debt dropping, CDI in the fourth quarter was 11.75 and our debt is approximately 12.35. Of course, a drop in proportion to CDI.

Now, to speak about guidance, we attained the guidance that we had set forth, net revenue very close to 16.1%, retail close to the bottom, but we have attained breakeven, and we have maintained the operation of 365 relevant, the retail operation doing very well, and we reached an EBITDA margin of 84% and total EBITDA margin of 75%, and the investment very close to the ceiling, reaching 199 million.

We now go on to the last slide, where we set forth our annual guidance. Growth of net revenue when we look at the mall segment should be between 4% and 8%, EBITDA margin malls, 82% to 85%, total EBITDA margin of 75% to 79%, and investments between 190 and 230 million. Even with the retail operation that has lower margins, we once again give guidance with margins at the same level as we had before, before the retail operation, and we're around 75% and 79% in terms of our historical EBITDA margin.

With this, we would like to open the floor for questions and answers. Thank you.

Question and Answer Session

Operator: We will now go on to the question-and-answer session only for investors and analysts. Should you have a question, please click on the “raise hand” icon. If your question has been answered, you can withdraw from the queue or “lower your hand”. We will take the questions in the order in which they are received.

Our first question comes from XP Investments. You may proceed.

Juan Argenton: Thank you for the presentation. I have two questions at our end. The first, your mindset when it comes to capital allocation, you had good deleveraging during the year, and of course, this allows for more room for greater capital allocations. Besides Casa Figueira and the retrofit of the Marketplace that was announced, what else do you have in mind in terms of growth? Acquisitions perhaps, increase of shares? This is the first question.

The second question refers to occupancy. In this quarter, we see a leasing spread that is somewhat larger, 7% on the average throughout the year. And despite this, there was a significant reduction. And it seems to be the beginning of the growth of this leasing spread. Which is your expectation when you renew leases? And if you could speak about assets that are very close to this renewal of the contracts, which are your expectations? Thank you.

Cristina Betts: Hello, Juan, and thank you for the questions. I'm going to begin with the capital allocation question. We do have some projects. We announced the Marketplace retrofit, as you mentioned, and Casa Figueira, that is part of our radar, we began breaking ground for infrastructure work, but we have also submitted the approval for the expansion of Iguatemi Brasília.

This is very important for us because Iguatemi Brasília no longer has room to accommodate the demand that we have in that state, Brasília. As you know, and we mentioned in previous calls, in the second half of last year we took some international luxury brands to Brasília, and they were all very successful. The good news when there is success is that people want stores, they want a store next to X and Y. So this is the right time to truly begin with this expansion.

You will recall that there was work to readjust the construction indices. In Brasília, we have the lowest index in terms of making the best use of the land, and what we want to do is reach the position that other malls have. And this will allow us to launch this expansion.

Well, Brasília is part of the radar, and you will hear more news during the year. In our explanation note of the potential of construction, we will begin to work in São Paulo, nothing to launch this year, but we're going to begin work to adjust the use of space in Iguatemi São Paulo. Already does exist an approval for this, we have begun to clean up the area to work with the expansion that we intend to have. And when it comes to M&As, as I normally say, we need to wait a bit and reach an agreement with people that are willing to sell. All of this will depend on the right time. We're always on the lookout. As you know, we're quite disciplined in this type of activity and our acquisition now of the Novo Hamburgo outlet is a small stake acquisition, we gained control of the property, and of course, we're looking for other opportunities to continue to increase our stake in our developments, perhaps new things, who knows. But this will be more in the future. We're now focusing more on what we already have in-house in terms of CAPEX and the new approvals that we have just mentioned.

Guido Oliveira: Good morning, Juan. And to continue on with your question in terms of cost of occupancy, it dropped from 12.1 to 11.7. We had better sales based on our range, and our range grew 10%. And even if we consider the negative IGP-M, what we can say is that if we look at the commercial part, we had 445 contracts signed; a true record. In January and February, we have signed more contracts than in January and February of 23. Therefore, the curve is in line with what we have set forth as a goal, and the discussion is always on the leasing spread of the leases and the renewal of contracts.

Of course, our quest is to enhance take rate over sales. Now, the level of discount at present is much lower than the levels that we were practicing last year and what we had in the year 2023. We begin 24 at the same level of the fourth quarter of 23, which is the busiest schedule in the year 23. Now, what we're doing now is to increase the spread.

If you ask me about assets that have significant renewals in 24-25, we don't have any. We have the expansions of Campinas, what we're doing in Porto Alegre, they were significant in 2015-2016, but the renewal will only be beginning in 2026, 20% of the total number of tenants throughout the year. And of course, our work is to seek a positive spread. It was 7% last quarter. So we should see enhancements in occupancy throughout the year.

This is very important for the company.

Juan Argenton: Thank you. Thank you very much for your answers. Have a good day.

Operator: Our next question comes from Bruno Mendonça, from Bradesco BBI. You may proceed, sir.

Bruno Mendonça: Good morning, Cris and Guido. Thank you for taking my questions. My first question follows the context of the question we heard before, the trends in leases. If you could give us more color in the quality of the turnover of tenants.

And the background of my question is the difference between a trend of growth for leases and sales. Same area, same store, the same area of rent, SST, growing less and it suggests that the turnover means we will have lower leases, but in same area, SSS, we see that the sales are better than same store sales. Now, what is it that you can add in terms of color over this? Is this a temporary effect of discounts, of grace periods given to tenants? And how do you look upon this?

My second question about your pipeline for 2024 in terms of land. You have been very active in this. And what can we expect for 2024? Thank you.

Cristina Betts: Hello, Bruno. And only to speak about the quality of our turnover, when we increase occupancy, it becomes easier to qualify what we have. We have very strong sales in all of our assets, and therefore everybody migrates, it's that black hole when sales are performing well. So we have demand in all of our assets. They differentiate it demand.

When we think about the end of pandemic up to present, that increase in the contract signed is not by chance. It means that we're performing very well on the assets. This is very visible, and everybody is chasing after this. We're closing contracts with a positive leasing spread and with a qualification. As you know, and this is part of our DNA, we're resistant to bringing anything in-house, it's very important for us to have tenants in the vacant GLA, tenants that will add to our mix.

We always have a discussion on these three points of doing away with vacant areas, doing this with the right price, but with the right mix as well. And when we look at this discrepancy of same area, same store, it's because we brought in a great deal of things in-house and there is that grace period still. So there are always investments of the tenant before they can open their doors.

So we have brought in-house the performance is incredible and we will have very interesting things happening this year. We have things scheduled not only in São Paulo, but there are important things happening outside of São Paulo, happening in Porto Alegre, in the hinterlands of São Paulo. The example that comes to mind is the opening of Sephora in Rio Preto. It will be something colossal. When the first Sephora opened in JK, we had lines outside of the mall before the mall opened. So this is one of the stores that was extremely successful. They had incredible results at the end of the year.

And when we think about this qualification, this is what we do. Once again, it's just a difference, a one-time difference. Once we stabilize the turnover of tenants with new leases coming in and offsetting those that are leaving, we will have that same area and same store results reaching the same levels.

Guido Oliveira: Now, simply to answer your second question referring to the pipeline, as we tend to say, that is recurrent revenues in Iguatemi, PSV has always been based on mixed use, we have residential, commercial, and hotel enterprises, and several are under construction. If we look at 2024 and going forward, we should underscore Figuera's Campinas with the infrastructure work. We're beginning to sell off the lots, we will begin now in the first quarter to work with roadshows and work with operators for real estate movements. Everything has been organized. We already have pricing. And this will become recurrent for the coming 20 years. These are lots that we will be negotiating for the coming 20 years. What we have also negotiated is multifamily in Marketplace, a retrofit project that we have for Marketplace. This tower is already under negotiation, reaching conclusive results. We haven't announced this, we still are not able to do it, but we will announce this in the coming months, pipeline for this year.

Cristina Betts: Now, to underscore what Guido has said, in the former Casa Figuera, we continue to do everything we're doing. Well, Casa Figuera is a top of, and this is positive news because it leverages everything that we're mentioning here.

Bruno Mendonça: Well, to speak about Marketplace, when you say you have a multifamily asset, are you going to sell units at a normal price? Or is this a project to bring in revenue?

Cristina Betts: It's for revenue.

Guido Oliveira: Of the multifamily structure that you are aware of, and you will have a stake of this, of course, in the Iguatemi.

Bruno Mendonça: Will this be geared only for sales?

Cristina Betts: We will only announce this once we close the business.

Bruno Mendonça: Thank you.

Operator: Our next question comes from André Dib, from BBA. You may proceed, sir.

André Dib: Good morning, Cris and Guido. Thank you for the presentation and for taking my questions. We have two questions. The first about occupancy. We'd like to understand the dynamic between assets that have contributed the most. And if you get to that 95% until the end of the year, which are the following steps that we can expect through your negotiation?

Second question refers to the retail. Speak about occupancy. Now the release has also given us details on your initiative, we see that you have a significant effort because of the changes. Now going forward, which additional efficiency can you gain? And which is the level of profitability that you're imagining for the longer term, something more recurrent for this segment? These are my two questions. Thank you.

Cristina Betts: Very well, André. To speak about occupancy, 95 is a very good figure for us. If you look at our track record, we entered a recession with figures that were not these,

I'm not referring to the pandemic, I'm referring to the recession, so we carried out significant work to recover the occupancy of the malls. And the malls that are flagship, that are at the top of the pyramid for us always had very high occupancy levels. In the middle of the road in the recession before the pandemic, we implemented significant changes at JK Mall. We had those apocalyptic people that said that we would never be able to do this, that we had too much vacancy at JK, and we now show them the qualified work we have carried out at JK.

And in the hinterlands, that we affectionately call “babies” and who have become teenagers now, are showing signs of maturing. So the occupation of the malls in the hinterlands has been relevant to attain this figure. And of course, we have room to grow this, and this is part of our plan for 2024, to slightly enhance the occupancy rate. To give you a soft guidance, it would be around 97% at the end of the year, but once again, we have already worked very strongly on this and about those 97% are rounded figure will have a great deal to do with what happens in the hinterlands, around the region of São Paulo, as Brasília, JK and São Paolo have already reached a very high level.

So in terms of occupancy, this is what you can expect a minor improvement that will, of course, be important.

Now, for the retail part, we have carried out significant work in 365 throughout 2023 and we can expect a steady state of the positive value we reached throughout 2024, and maintenance of what we have done in terms of sales and much more. When it comes to retail, we saw a significant enhancement in the brands that we're operating with. We delivered Balenciaga in mid-year, this is a brand that has a perfect fit, it had an impact on profitability of the unit of the stores that contributed positively and very strongly. But we will have the entrance of Loewe, it is a very desirable fashion brand worldwide, it will be the first store in Brazil, we’re betting our chips on this, and it will be truly fantastic. Everybody will love that store.

So we replaced stores because this is the idea of working in the retail sector of making feasible the entry of brands, something that would probably take longer if they would do this on their own. This would have applied to Balenciaga, and this is what we will do with Loewe, it is a desirable brand, it has a great deal to do with our audience, and we will accelerate their coming in to Brazil. And throughout the year, we will maintain what we're doing.

We have some stores in our portfolio where we are enhancing the results, we’re learning how to buy products and this is very important, but we're also going to qualify with brands like Loewe that is very important for us.

In terms of margin, this will represent an improvement during the year.

André Dib: Thank you. Thank you very much. Have a good day.

Operator: Our next question comes from Aline Caldeira, from Bank of America. You may proceed.

Aline Caldeira: Good morning, everybody. Can you hear me?

Cristina Betts: Yes, yes, we can hear you very well.

Aline Caldeira: Good morning, Cris and Guido. Thank you for taking my question. I want to speak about a topic that relates to M&A, the possibility of disinvesting. We see fees, there are many transactions in the market, if you could explore which is your vision here and if you see opportunities in the Iguatemi portfolio and if this would make sense for the company.

My second question refers to the guidance for 2024, the growth of mall revenues, you're implying that the growth will be very reasonable, very palpable. Now, in that growth that you expect, is this due to the leases, or will there be opportunities in the other line items to also grow?

Guido Oliveira: Good morning, Aline. When it comes to M&A and the opportunities for investment, of course, we're looking at this and we're very diligent in terms of this. We look at our own portfolio as well, we are looking at the sector and as we have done in the past, we have enhanced our portfolio with the sale of Iguatemi Rio and other assets, of course. We do have our eye out for opportunities. When we find one, you will hear about it.

If we look at the 2024 for guidance, when you speak about the growth of revenue, we're thinking not only of leases. Leases will have a reduction of discounts and in the spread of renewals, as Cris said, we're going to go from 95 to 97% occupancy rate this year. But there's also work in all of the other line items. You will recall that last year when we did have that impact of the IGP-M in 2022, nobody thought the IGP-M would become negative, in November of 22 and January of 2023 we had a negative IGP-M that extended throughout the year. We see the price of commodities that have not increased. Once again, the prices continue to be low, the market was expecting an IGP-M of 4 in FOX, the IGP-M has been priced at 3, so our search is also for a real gain based on this correction and the savings that were important last year, the parking and other parts were very important, and they will continue to be.

In parking, we looked at flow. The flow in January is better than the flow in January 23. The rates as well, we have looked out at the market, and we can reposition ourselves here, and there will be a significant increase in these line items that will help us to obtain the guidance that we have just offered.

Aline Caldeira: Thank you. Thank you very much. That was very clear. Thank you for your answers.

Operator: Our next question comes from Tainã Costa, from UBS. You may proceed.

Tainã Costa: Good morning, Cris. Good morning, Guido. My question is very similar to that of Bruno, refers to discounts. It is 3 or 4 percentage points below the third quarter, which is the present-day level of discounts, and we see that you have an improvement. So, are you going to withdraw the discounts? Is the scenario that we see now the base scenario or is there further room to remove discounts?

Now your growth has been above that of industry and the retail markets. Will it be a single-digit, a high single-digit or more? These are my two questions. Thank you very much.

Cristina Betts: Hello, Tainã. To speak about the discounts, without mentioning figures, but we are at a level of discounts at present that is better than what we had before we entered the recession in 2015. In fact, our figure is quite low at present. As I mentioned, it's not the lowest figure ever that we reached in the company. As we were mentioning previously, the maturity of our assets and the demand that we see for spaces, the vacant GLA seems to be shrinking, and it means that we can continue to decrease the discounts because of the increase in demand.

And as part of that figure, as we said to Bruno, same store rent, same area rent, this refers to the grace periods where we still have a churn in the mix. And as this becomes stable, it will be taken away from the P&L. So these two factors, the maturity qualification of assets and the churn that is becoming ever more stable means that we will reduce the level of discount. We’re better today vis-à-vis 2015, which is incredible for us, but I think we can do even better. That is the first part.

When it comes to sales, yes, we do believe in figures that can be a high single-digit, a low double-digit. We see a very strong performance in terms of fashion, we also see luxury perhaps not growing enormous double digits as we saw in the past, but with significant growth still. The expansion of luxury to other areas such as Campinas and Porto Alegre will also help us to propel this figure.

Once again, we remind you that fashion is our main core and increases here, of course, have a greater impact on us. And that qualification, that change in the consumption profile of the Brazilian that has begun to buy more locally, we have increased the share of wallet for those consumers that are spending on this type of product. Well, this means we are capturing more. When we speak about Collections that increase in the average ticket, of course, there is that driver, which is the Collection, but it's also due to the consumer that is buying more locally.

We have always spoken about the resiliency of our portfolio, which is a mid-upper-level portfolio, and we're now seeing the results of this in our sales. When we outperform the retail industry as a whole, it has to do with our positioning, our qualification, the curatorship that we're working with, where we're making efforts to bring down Loewe. These are unheard of brands here, desirable brands. When we help brands to do better work, perform better, we're helping our partners, the tenants, and of course, this has a return for us.

And it’s a very powerful business, we're working jointly in this, but it doesn't necessarily show immediate results. What you see here is a result of years and years of continuous work that will never stop. It's part of the qualification process.

Now, this year, at the end of the year, we opened up the Tiffany flagship, and I have no doubt that this will truly shine. It is an incredible project, and all the national and international brands are thinking about how to better engage the end-user, how to increase their loyalty levels. And what we have to do is help them fully in this.

When we speak about the event space, we have JK, Higienópolis, Iguatemi. When we do things in Brasília, all of this is very important, it allows us to make the sales much more substantial. A long answer for a very short question, but all of this is of the utmost importance for us, and that is why we're betting on the result of sales. Sales outperforming what the market will present.

Tainã Costa: That was very clear, Cris. Thank you very much.

operator: Our next question comes from Elvis Credendio, from BTG. You may proceed.

Elvis Credendio: Good morning, Cris and Guido. We have two questions that are end. Minimum lease seems to have slowed down, and I know this is not ideal to look at lease because there is a drop in nominal terms. What justifies this, if you could give us more details on this?

And another question, once again, about guidance with a focus on EBITDA. You mentioned that there is a soft guidance, 97% occupancy during the year that your cash costs will drop, but which will be the volume of sales of your landbank? You have quite a bit of projects in your pipeline, and how can you reach that midpoint of EBITDA and the reduction of SG&A, what you expect there? Thank you.

Guido Oliveira: Hello, Elvis. Good morning. To answer your question in the fourth quarter, you will see that the transfer of inflation, as I mentioned in the speech, dropped from 6 to 5.5. The gain on inflation, we have the loss of only 1 point. When we look at the composition of the fourth quarter 23 and that of 22, these are the strongest quarters. And when we look at the impact of IGP-M in the quarter, in the previous quarter it was 3%, it dropped below 2. So we have less impact of IGP-M in the quarters. In this first quarter, the impact will be zero.

In our contracts, we don't transfer the negative IGP-M to leases. So the effect will be somewhat lower, yes.

Now, despite all of this, we offset this with the increase in occupancy. We went from 93 to 94.5, 93.5 to 94.5. Now, when you compare this to 22, we had a gain of 2 percentage points.

And this offset the fact that we didn't transfer the drop in IGP-M. This was the impact on the business. And the gains are through the lease spread. And the reduction of discounts, as we have been mentioning, is lower, 1.4 on average for the previous 12 months. Why? We're withdrawing discounts in 2023, and of course, this will continue to decrease. We are bringing the discount to a very low average, as Cris mentioned in the previous question. We have a very low level of discount. We're beginning January and February, in January with the double of leases, and we're below what we had set forth as our goal.

So this is the explanation when it comes to the sales of our landbank, if we see what we did in 2023, we should have very similar figures for 2024. Well, this is part of our guidance to have similar figures of what we had in 2023, and the occupation will help us in this figure. We will go from 95 to 97, we will have more leases and the less cost of vacant GLA. When occupancy increases, we decrease the cost of our vacant GLA. And this will help us in our SG&A and all of the work that we did in terms of efficiency during the year.

In the fourth quarter, everything is very clean. We only have to withdraw the increase of provision for the bonus and P&L. It was approximately 3 million. As you could see in the release, we're going to annualize this, so the cost of expenses in 24 will tend to be lower.

When you look at 2023, if you annualize the G&A, it will be low, and we're going to annualize everything we did during 2023. The reflex without rescission only happened in the last quarter of 2023.

Elvis Credendio: That's very clear. Guido, thank you very much. Have a good day.

Operator: Our next question comes from Matheus Meloni, from Santander. You may proceed.

Matheus Meloni: Good morning and congratulations for your results. My first question, when you sign the projects for revitalization or expansion, is it that you're looking for these projects? And if you could share with us your CAPEX for Marketplace.

Now, the second question, what is it that you expect for this quarter?

[translator: I'm sorry, there is a great deal of noise in the background. I have not been able to hear the question.]

Cristina Betts: Hello, Matheus. We still have not disclosed the expected CAPEX for all of the movements we will be doing. We should be doing this throughout the year, when we are able to finalize our projects. We do have a design, but we don't have all of the parameters so far. So we're going to focus on the figures before we disclose them. But it is important to say that in terms of CAPEX disbursement for Marketplace and Brasília that we mentioned here, we don't have anything. We have the approvals, the project so far, but when it comes to the works, I think they will only begin in 2025, certainly from what we said for Iguatemi-São Paulo, which will be a light engineering work.

You'll probably kill me for saying this because it's still the preparation of what we need. It's not truly the construction that we will begin. And the increase of the bracket of the guidance also refers to Casa Figueira, mainly the things that we're doing, maintenance of the malls, we're going to begin the infrastructure work, we're going to work on the center of the neighborhood, we have the project of a house which will be called Casa Figueira, and we're going to follow up on the work of the commercialization of the neighborhood. And all of this will be connected to a prototype that can already be visited.

Now, this increase in the bracket of the guidance refers more to that part and not the other activities we remarked on. And during the year, as we have more clarity on the projects, we will speak about capital and deadlines.

Guido Oliveira: Now, in terms of your default levels, Matheus, our default levels are extremely low. At the end of 2022 it was negative in 23, we were slightly positive, this due to the, well, leases that we had in 20, 21, and the discussion that was held in terms of IGP-M. Our gross default at present for the month is already the lowest since 2015. We have come back to our default levels in this situation of normalcy. We forget that we had two years of recession, 2015-2016, there was a drop in the GDP of Brazil. We have an increase in our default levels, this added to the increase in interest rates in the last year because of the drop in interest rates, the recovery of economy, an increase in sales, our default levels are back to historical levels.

The level will be low in January, gross default, although in January, the rent is doubled, tenants have to pay for the lease of December and the 13th lease, and the default level is the same as that of December, which is the month where we have the highest sales. This shows you we have a very healthy portfolio.

Our default levels, therefore, will be at a very healthy level throughout the year.

Matheus Meloni: Thank you. Thank you very much.

Operator: Our next question comes from Jorel Guilloty, from Goldman Sachs. You may proceed.

Jorel Guilloty: Good morning, everybody. We have two questions. I would like to speak about the dividends. For the year, it was 200 million as you stated, if I compare this, you’re your net profit, it represents 66% for the profit for the year, 35% of adjusted FFO. So how are you thinking about dividend payout going forward? Do you think that the payout will remain at that level vis-à-vis your net revenue? Will we see a higher payout compared to your historical levels going forward?

The next question is the margin of EBITDA. If I could better understand the levers for the two parts of the range, the lower part and the higher part. Is this due to drop in cost, increases in lease, so that we can better understand your mindset of how you reach that range of EBITDA margin for the malls? Thank you.

Guido Oliveira: Good morning, Jorel. If we look at the dividends, we had a payout of 66% of net revenues, as you mentioned. Now, before the pandemic, we did have a similar payout of 50 to 60% of the profit of the previous year, we had paid 60 million in 18 to 19. In 2020-21 because of the pandemic, there was a reduction in dividend payout. And in 23, we paid out 110 million, and now in 2024 we're increasing this to 200 million. So the payout is above 60%, and this is the level we should continue in coming years. Of course, we're going to look at cash generation in the company, but the intention is to maintain significant dividends.

Now, if we take into account 200 million, we're thinking of 3-3.5%. When we add this to our repurchase, 150 million, our payout is 5.5%, which is a significant payout of dividends if we compare with the market.

In terms of EBITDA margin and malls, in malls we have significant EBITDA margin because of the work of efficiency that we have carried out and the improvement of results, the growth in the malls throughout the years. So we're going to stabilize at a margin of 85. As part of the guidance that we have offered you, it is an aggressive margin 82 to 85, that of course, based on the work that we have been doing with SG&A, as I said in the last question, G&A will annualize at lower levels compared to 2023. We will have lower costs and expenses during the year, and of course, we should consider the growth of our net revenue, and the PSV that I also mentioned, which will be at the same level that we had in 2023.

All of this will enable us to have high margins. What we didn't mention was the resale of sales points. Last year, we had a significant sale which brought about important results. The sale of the flagship to Tiffany adding 20 million to our results, along with a resale of sales points that we carried out throughout 2023. In other revenues, this reached 70 million of revenues. So the figures of other revenues, PSV, will continue strong during 2024. We have several projects that will be announced throughout the year. And that is why we're quite calm about our EBITDA margin.

In terms of total margin, we're speaking of the breakeven of the retail area. It would burn cash. Now it generates cash, and it will no longer hamper our results as it was doing in the past. We're back to working at margins that are 75 to 85% as part of the consolidated results of the company.

Jorel Guilloty: A quick follow-up, if you allow me, that range of 82 to 85 and the EBITDA margin of the malls, is this your target? Is this structural for the long-term or could it be even higher?

Cristina Betts: We're seeking more efficiency. We shouldn't speak about targets. We reach the bar; the bar is raised. It's part of the game. When we attain the goal, we double our goals and we do some work, we see what we can do, and it has a great deal to do with that idea of always raising the bar.

If we had measured this two years ago when we were leading the recession, that we would reach 84%, I would not have been very sure. But looking at this now, we can say that this is structural and that it will remain at this level forever. This is what I'm trying to underscore. This year in that range, this is what we're going to attain. And the coming year, we'll try to do better, a margin of 82 to 85%.

There's almost no cost there. Very few things are left, a bit of payroll, when we do away with vacant GLA, recoverable areas, these are important levels and the cost that is part of the margin of mall. It's implicit in that value, but we won't have the full-year value of this, and beginning with 97%, we will have the full-year value from the elimination of GLA vacancy. So it will continue to improve.

Now, this year, this is what we can say.

Jorel Guilloty: Well, thank you, Cris. Thank you, Guido.

Operator: Our next question comes from André Mazzini, from Citi. You may proceed.

André Mazzini: Good morning, Cris and Guido. Most of my questions have already been answered. There's a question about 365. You mentioned the reduction of assortment, and the goal for 2023 and 2024 is go back to a breakeven position even position, and you discontinued products that have lower contribution margins or negative contribution margins. If you could dwell on this further.

Now, this is marketplace, you work with several brands. You have Loewe from Spain, other brands, but the contribution margin is very important for 365. And what makes these contribution margins higher or lower? The power of bargaining, the brand, the product? If you could explore this further, I would be very grateful.

Cristina Betts: Hello, Mazzini. **A**s part of what we have reformulated in 365, this reduction in SKUs, we focused on 1P. We have many products that are from retail, from stores that are operated by retail, but we also carry out selective purchases of international products. 1P that we deem to be desirable brands with a future potential of eventually opening up a store. A brand that is doing very well in 365 is Longchamp, for example. They already have stores in Brazil. They left. They're back to 365, and they're doing very well. It's that conversation that we had that refers to brick and mortar stores. It also applies to digital stores.

So we have to seek out the products that complement what we do not have still in the mall, that don't have the size, they don't have the desire to have an individual store, but that are adherent to our audience. And when we do this, we are able to get the right thing because we're choosing products that have the right demand. Of course, we're not always 100% correct, but we have to be good at what we do to reach that breakeven point.

We are in this journey that is to create a digital ecosystem. We have Iguatemi Daily with all of the part of content and the digital media where we carry out a coverage of what is important. And that happens in our business, in our métier, lifestyle, fashion week, and much more. We speak about trends, people giving out hints on fashion, restaurants. This part of daily is very important, we're referring to 240 million views. Highly important because we create awareness of what is important to the core of our business, we have day one of Collections, which gives colors in terms of who are the end-users, amount of purchases, and 365 that also contributes to this journey of understanding who is our end-user, which are the products that are being purchased, and all of this has to be connected to the brick and mortar store, and this is done by Iguatemi One when you exchange your invoices for points.

Now to look at 365 in isolation, of course, in the P&L we separated with the retail market, but this is a mistake because it is part of the strategy for this ecosystem that is not fully drafted, but we are on the path to do that.

To go back to your question about profitability, yes, we took away the brands that were draining cash, but always seeking an alternative solution so that we can scale up other things in a very healthy, sound fashion. We do want to have this operation as breakeven, and it will improve as it is more integrated.

André Mazzini: Well, thank you, Cris. Thank you very much.

Operator: Our next question comes from Marcelo Motta, from JP Morgan. You may proceed.

Marcelo Motta: Good morning. Simply a follow-up in terms of your investments. We were under the impression that at the end of the year you were going to work with two disinvestments. What happened? Was this a problem of price or something else that ended up not having this acquisition happen? Can we expect this to happen during the year?

And the second question is about your debt profile. You have several amortizations this year. What are you going to do? Refinance it through CDI? I would like to understand your mindset in terms of your liability management.

Guido Oliveira: Motta, you're right. When it comes to the disinvestment, it's due to the negotiation, due diligence. Of course, they're still part of our pipeline, we're looking at this,

and as I said in my previous speech and one of the previous questions, when we're close to the closing, of course, you will be communicated. We have been working on this, and why we didn't announce this in December? It's part of the game. We weren't able to close the deal. It wasn't due to price; it was due to the negotiations per se.

Regarding our amortization stream, we're quite calm. We always have the best average cost in the industry when it comes to CDI percentage and the best average term. The market is much better, the Central Bank has regularized the market, it was somewhat chaotic. Now, everything is coming back in a more competitive way. And of course, we are looking at this, we're looking at some debts, we have debentures that we issued in 2021 that still have a very high spread of about 2%, and the market is below that. So we could have to work with liability management.

Of course, we're focusing on this, and we will work with issuances to enhance our midterm cost.

Marcelo Motta: Thank you. Thank you very much, Guido.

Operator: Our next question comes from Rafael Rehder, from Safra Bank. You may proceed.

Rafael Rehder: Good morning. I simply want a last follow-up in terms of your capital allocation. The leveraging is at a very low level, as you mentioned, and even if we think of the top of guidance of investments for this year, I think that your leverage will drop until the end of 2024. I would like to understand your mindset, which would be a sustainable and desirable level of deleveraging. And it would help the company to work with a new greenfield, because, of course, the interest rate is becoming more stable. Thank you. Thank you very much.

Cristina Betts: Hello, Rafael. To speak about the deleveraging, that question is always somewhat strange because, well, we have to see good deals. When I reached Iguatemi in 2008, they would say that the ideal leverage of the company is “x” times, you have to allocate your capital, and I would say “that's fine, but you have to have good places to allocate your capital. It's not the egg, and the opportunities have to come before the leveraging”. We don't want to do anything mad, you know, Iguatemi, we don't want to be over leveraged, we're always concerned in maintaining that space. When we had a higher leverage, we focused our work towards reducing that leverage. We are below 2 times now thanks to a great deal of work, not only last year, but in previous years.

Once again, this does not mean that if 20 fantastic projects appear before us, we will take them all simultaneously. We cannot increase our leverage; our limit of leverage is 4 times. But in a country like Brazil, to have a leverage of 4 times, I think this is somewhat daring, at least in our industry. Of course, others will work with different levels, but for our company, it would be extremely extreme. We don't want to even come close to 4 times. And it depends on the timing of the opportunities that arise.

When we work with brownfield, when we carry out works in-house to expand GLA, this dilutes the leverage through time, allows us to scale through this in a more continuous way, in an easier way. With M&As, there's an impact on leverage if you do a good acquisition, which is the case of JK, you can dilute this very speedily. We had a truckload of money to acquire JK. We were questioned regarding the cap, now where we began at 8, we're now above 10, and this amortizes the leverage, it reduces faster.

This is what we like to have a good acquisition and deleverage with the asset itself in a more speedy way. And of course, acquiring something that makes sense. Long answer for a short question. There is no excellent leverage, I believe, but we are conservative and we're only going to make acquisitions if we truly believe the asset is worthwhile, that the project is worthwhile without stressing the company when it comes to debt.

Rafael Rehder: That's wonderful, Cris. Thank you very much. And that last point, your view on future greenfields…?

Cristina Betts: Yes, future greenfields, I forgot. I believe it's still too early on to speak about greenfields. Although we have good demand, good sales in our assets, we see a greater opportunity of working with brownfields, which we are doing now. Now, greenfields, let's imagine a mall of 40,000-50,000 square meters, you have to put everything in there, movies, stores for children's shoes, you have to pave everything. In a mall of 40,000 to 50,000 square meters, you have to have at least 400-500 tenants. As we mentioned here, we're performing very well with our portfolio, perhaps not as well in the retail part. You have to have 400-500 tenants willing to bet on a new project, have a CAPEX for a new project, and I don't think we've reached that point yet as an industry.

We have other opportunities before us. We're happy to continue on with them. And greenfields will remain on hold for the time being.

Rafael Rehder: Thank you. Thank you very much. Have a good day.

Operator: Well, thank you. Ladies and gentlemen, as we do not have any additional questions, we will return the floor to Ms. Cristina Betts for the closing remarks.

Cristina Betts: Thank you very much for your attendance at our call.

We're extremely satisfied with the results of 2023, and I would like to record here a congratulations to our entire team. The result is thanks to the joint work of all of our employees at Iguatemi, those that are on the floor of the mall, those that are in the Holding, truly fantastic work. And I would like to offer condolences to the family, to Fernando Pastore, who was our economist for many years. I have been in the company for 16 years, and during all of that time, I drank in his wisdom, he gave us important guidance during difficult and good times. We will miss him a great deal at Iguatemi.

And on a happier note, let's continue on throughout 2024, we have a great deal to deliver, and we are very enthusiastic about this year. thank. Thank you once again.

Operator: The Iguatemi conference call ends here. We thank you for your attention. You can now disconnect.