

Q2 2016 Earnings Call

Company Participants

- Eduardo Camara, CEO
- Thiago Alonso de Oliveira, Investor Relations Officer and CFO

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon, and welcome to the JHSF Participacoes conference call to announce the results of the Second Quarter of 2016. Today with us, we have Mr. Eduardo Camara, CEO; and Thiago Alonso de Oliveira, Investor Relations Officer and CFO.

We would like to inform you that this presentation is being recorded and all participants will be in listen-only mode during the company's presentation. Then, we will open a Q&A session when further instructions will be provided.

(Operator Instructions) Before proceeding, let me mention that forward-looking statements made during this conference call regarding the business outlook, projections, and operating and financial goals of JHSF are beliefs and assumptions of the company's Board and on information currently available. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Changes in macroeconomic policy or legislation, and other operating factors could also affect the future results of JHSF and cause results to differ materially from those expressed in such forward-looking statements. Now, we will turn to Mr. Eduardo Camara who will begin the presentation. Please, Mr. Eduardo, you may proceed.

Eduardo Camara {BIO 2074637 <GO>}

Good afternoon. Thank you very much. I thank everybody for their participation. Before we talk about the results, I would like to clarify that since publishing 3,000 of articles in the news, JHSF through lawyers is co-operating in all investigations despite today we -- the company states its willingness to co-operate with investigations and we are not involved in any crimes and have always followed the law.

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Well, now, when we go a brief opening of our results here. I believe that here we have income that was impacted by international sales. I would like to draw your attention to a specific impact that we see in real estate developments due to cancellation of units that were foreign investments and were cancelled because of the economic movement. In our shopping activities, good results, above expectations -- to the expectation of the industry and positive regarding our current economic activity. Hotels and restaurants are stable regarding in this period.

Now, I give the floor to Thiago, so he can show you the presentation and details regarding the results I just have mentioned.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon to everyone. I will continue the presentation on page 4. I would like to make some comments regarding gross revenue. Eduardo talked about cancellations. So, when we see a specifically the variation of gross revenue of almost 19 million, here we can clearly associate 18 million of this variation to the sales effect that are from our real estate development. Now, the rest, we have an impact no longer consolidating the result of recurring income. These are retail units that were sold in 2015 during the second semester, but we're still using the past base.

Now, regarding hotels and restaurants throughout the second quarter, mainly in the city of Sao Paulo, we saw that there was a slight drop in revenue of hotels and also revenue of restaurants unlike what was perceived in Rio de Janeiro.

Now, when we go the upper right chart, EBITDA grew, here there is an impact, a big impact that comes from the sales of foreign assets we had already accounted the effect of the dollar exchange rate that were allocated in that equity and there was a realization. And now, they've gone through the DRA [ph]. In addition to this, we can see there is stability in recovering assets or when we see restaurants, we've lost a bit of EBITDA and there has been a sharper drop in real estate development that has paved [ph] to the cancellations that Eduardo already mentioned.

Now, regarding cancellations, we can see the effect here on our financial results. We've had some impacts of accruals there from our portfolio and financial results of the quarter has been impacted by these effects. Now, when we also see the net income, here about [ph] 48 million on results of the quarter vis-a-vis 16 million the same period last year.

Now, when we go to page 5, I would like to highlight, number one, that although we're facing a macroeconomic scenario, that has not been very good during the second quarter. We grew 5.2% in sales. For example, in our shopping malls, we are very happy with the variation, if you take into account the scenario. In terms of revenue, our revenue grew 1.2%.

And when we see the lower part of this page, we can see that occupancy costs dropped and it has dropped in a healthy fashion. There has been a constant drop because we believe that the occupancy cost is cheaper and we can also realize, on the right lower

part, an improvement in the leased area. When we compare it to the first quarter, we are monitoring very closely and we do have the feeling on a daily basis that the worst has been -- the worst part is in the past.

Now, when we also see our daily management shopping malls that have ever growing -- growth with occupancy costs that are dropping here, we can see that the levels are very healthy because this is the binomium that we have to pursue. This has to be attractive for store owners and we have to have a varied [ph] environment for the people that go to the shopping. We are highly satisfied with the performance of the shoppings. Regarding recurring income, what we can see here that the variation in revenue and operating results, essentially this is a result of the effects of the retail activity and also of the sales of energy. Therefore, this is a business that we consolidate in our business unit, nevertheless, with different dynamics from the activity of shopping center management.

On page 6, where I have already advanced in my comment, here we have performance of hotels and restaurants, has been affected by the current moment in the city of Sao Paulo when we see the hotels. In Sao Paulo, we see that there has been a drop from 9% to 10% during the quarter while the data of the industry shows there is a 15% drop. Although we have had a drop, it's lower than that of the industry. And restaurants, there is a stability in a more positive balance this quarter than in Rio de Janeiro, than in the city of Sao Paulo.

Now, on page 7 here, we have some brief comments regarding the performance of real estate development. The first point, we have realized during the second quarter a resumption of sales in Fazenda Boa Vista. We have to remember that this is the biggest inventory that the company has today and it is a product that has suffered in the past quarter because of economic uncertainties here in Brazil.

But within the same segment, we also have cancellation effects that were very significant within this quarter. Eduardo talked about an investing customer and we had some cancellations in one of our developments that is called Bosque Cidade Jardim.

Now, going to page 8, we're going to try to present our cash and equivalents, and indebtedness. Well, we'd like to share with everyone, we continue with our plan of -- leveraging plans for the company and also to extend the profile of our debt. This quarter, we materialized the sales of assets abroad as well as the extension of a debt that is 40% of the total of the company's debt, that is a debenture. Therefore, we will continue in this pathway pursuing the reduction more and more the leverages that we have today, as well as an extension of the debt profile of the company. So, this is what we had in terms of subjects or main subject, main highlights. Now, I would like to open for a Q&A session.

Questions And Answers

Operator

Thank you very much. Now, we will initiate our Q&A session. (Operator Instructions) would like to ask a question.

Q - Unidentified Participant

Well, good afternoon, Eduardo; good afternoon, Thiago. I have seen here that there an increase in sales abroad and -- this is suspended. So, you want to resolve this until the end of the month. Can you say something about this?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Claudio [ph], good afternoon, this is Thiago speaking. Yes, we expect to resume this operation. We carried out a transaction to sell five companies. One of the JHSF (inaudible) was an indirect controller of a building in Manhattan and after we signed a contract, a sale contract of this partnership with the buyer, a new buyer appeared and we realized the transaction and this transaction calculates the results to be consolidated in the company -- in the controlling company.

Because of the calculation of the results and the fiscal impacts, we still have not materialized the sale. This is why it's suspended. Nevertheless, the expectation that until the end of the month of August we will be able to conclude, not only this transaction, as well as all the price adjustment calculations regarding the four other partnerships that had been sold.

Q - Unidentified Participant

Now, regarding the sale and if you could tell us what was the increase of calculated value?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Well, this value is still being calculated because it depends. In tax calculations, that are being carried out, our estimate is around \$5 million net, regarding, you know, in comparison to what the past transaction would give to all of us.

Q - Unidentified Participant

So, let's say, taking into -- you're not taking into account this sale?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

No, we're not considering this sale. The result of this sale will remain with JHSF Participacoes.

Operator

(Operator Instructions) (inaudible) would like to pose a question.

Q - Unidentified Participant

Okay, I would talk about operating expenses. Operating expenses, there was an increase regarding the past quarter. Could you elaborate on this fact?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

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Claudio, this is Thiago speaking. Yes, throughout this quarter we adopted a number of provisions that were more conservative because of the economic moment that we're undergoing. Therefore we're being a bit more strict when it comes to provisioning credit and this has generated more expenses here in the quarter, there was a variation.

Our effort, Claudio, to reduce G&A with rationalization optimization, focused on cost reduction or expense reduction is as strict as it was and we attained very important results with our actions.

Q - Unidentified Participant

Because my question, if this was the impact. So, what were -- sometimes when you're going to reduce cost in the long-term, you end up being increasing cost.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

So, Claudio, in reality what we're trying to explain here in the DRA is a non-realization of cash of past quarters. Now, regarding the cancellations that you had -- very important cancellations that you had --

Operator

Mr. Claudio, you may proceed again. (Operator Instructions) We're bringing our Q&A session to an end. And now, I would like to give the floor to Mr. Eduardo Camara for his final statements.

A - Eduardo Camara {BIO 2074637 <GO>}

Well, I'd like to thank everybody for their participation. And as always, our company, our IR department is at your disposal to answer questions that were not answered or additional information that you would like. So, we are at your disposal. Thank you very much and have a very good afternoon.

Operator

JHSF participation conference call has come to an end. We would like to thank everybody for their participation and have a very good afternoon.

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