Y 2017 Earnings Call

Company Participants

- Thiago Alonso de Oliveira, Chief Executive Officer, Chief Financial Officer and Investor Relations Officer

Other Participants

- Georgia Jorge, Analyst

Presentation

Operator

Good afternoon, and welcome to JHSF Participacoes Conference Call and the Earnings Result of 2017. Thiago Alonso de Oliveira, CEO and Investor Relations and Mara Boaventura Dias, Investor Relations Manager are present today.

We would like to inform you that this presentation will be recorded and that all participants will be on the listen-only mode during the company's presentation. Subsequently, we will hold a Q&A session, where further instructions will be provided. (Operator Instructions) This event is also being transmitted simultaneously via webcast and can be accessed through the JHSF Investor Relations website at ri.jhsf.com.br and the MZiQ platform, where the platform is also available for download.

Before proceeding, we would like to clarify that forward-looking statements that maybe made during this conference call regarding JHSF business prospects, project, projections and operational and financial goals are based on beliefs and assumptions of the company's Board of Directors, as well as information currently available. They involve risks and uncertainties, because they refer to future events and therefore depend on circumstances that may or may not occur. Changes in macroeconomic policy or legislation and other operating factors may affect the future performance of JHSF and lead to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to give the floor to Mr. Thiago Oliveira, who will begin the presentation. Please, Mr. Thiago, you may proceed.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon to everyone. Thank you very much for participating in the JHSF conference call. Here we have, Robert Romero [ph] that is the Legal Director; and Eduardo Camara, from the Board. And we would like to start today's conversation showing you in hindsight, what 2017 was like and then what are the focus areas that we have for the year 2018.

I will start by recurring income, 2017 was a year of strong performance for us. Our adjusted EBITDA grew 23% and this is the result of Robert's effort and what he led, he tried to centralize our management and looking at the assets under all angles and extracting more and more results from our assets. In 2018, I believe that the focus area for recurring income are focused on improving occupancy rates into shopping malls that we have more opportunities that would be Manaus and Salvador shopping mall.

The conclusion of two construction, what would be the expansion of Catarina shopping. It already has 1,500 square meters and the conclusion of another real estate development in Jardim's neighborhood in Sao Paulo, and the third focus would be renewals or refurbishment. We are strongly focused on the mix of new brands and this is something that we will bring to our shopping malls and see business spread opportunities.

Now in hotels and restaurants; 2017 was twice -- was a two-times challenging year that was associated to the situation of the city of Rio de Janeiro. When we compare it to 2016, when we had the Olympic Games, and I believe that the environment was more complex from the social economical condition in 2017.

Now year-on-year, we had a little bit of loss, but when we see the fourth quarter of 2017 compared to the third quarter and the fourth quarter of 2016, we have significant improvements regarding the performance of hotels and restaurants. In terms of our focus areas for 2018, we have great opportunity to improve our operational efficiency during the fourth quarter, we see an improvement in this aspect. The second point that is very important is to give attention to new operations. During the end of December, we inaugurated a hotel in Angra and we will inaugurate three more hotels. So, we are focused on this and we expect good results.

And the third point here would be, is the recovery of the activities in Rio de Janeiro.

Regarding Real Estate Development; 2017 was better than 2016, nevertheless, this was a difficult year in terms of cancellations. In some cases, we decided to cancel contracts that hadn't been paid by customers because there we could sell these properties.

Now this area, I believe, for those that follow the market, most of the real estate developers had very complex moments, and when we analyze, JHSF as a total [ph], the real estate development area was the one that was most affected in our results during 2016 and 2017. There is a change in prospect that is associated to lower interest rates. So, now we can feel that the market is improving regarding sales. So, from the internal point of view, we are preparing ourselves to sell houses and plots of lands in Boa Vista -- in Fazenda Boa Vista. This is a development of ours. I believe that the second area of focus for 2018, it's start the construction of apartments that are geared toward rental around Cidade Jardim Shopping. This is a project that for some time we have been showing the market that we're prepared for it. And I believe that we are mature to materialize this movement. And the third point here would be, for 2018 would be to finish the -- finish selling the stock units in Sao Paulo and in Salvador.

Now when we see holdings, our holding was -- had non-recurring reorganization expenses in 2016 and 2017. Therefore, we don't believe that we will have the expenses that we had in the past with the holding, and now we are focused on a lighter and cheaper capital structure for business units and at the same time pushing business to higher independence. The recent movement with JHSF Malls, I believe, shows you what we are trying to do regarding the businesses that are part of the holding. And I would like to talk about the airport, this was a project that during 2017 had progressed in the construction, you will see an image from last year of this airport, you will see the conditions in terms of construction. And our focus for 2018 would be -- would be to open it this year, airport commercialization, the hangars, and also additional commercialization area and logistics commercialization related or not to the airport business.

Now, here we can see the image of the airport in the central part. We can see the runway that is practically done, as you can see here, and we are already finishing the soil, so we can start paving. The areas, where we will develop our activities of hangar and logistic potential will be the strength that you can see in the picture both on the right and the left-hand side of the runway. We're talking an area of 400,000 square meters to develop our activities.

Now, we can go to the next page, where we will break out the consolidated results of each one of our business units. Here we have the consolidated view, where we are separating between gross revenue, net revenue, gross profit comparing 2016 and 2017, reminding you that in 2017, Shopping Mall Tucuruvi sold and 33% were sold in Cidade Jardim, and we have to show you what the consolidated result is year-on-year. This is why the boxes that we see on the left-hand columns, here we have gross revenue, net revenue and gross profit.

Now regarding gross revenue, we had -- we, there was a growth of 17.8%, the same percentage that was observed in terms of growth and net revenue. And then gross profit, we grew practically 70%. I believe that the major effect that we observe in this improvement of results is highly associated to the evolution -- to the evolution of real estate development, when we compare it to last year. We observed recurring income, where the main businesses are shopping malls and the gross profit is going to 124% to 134% and Fasano hotels, restaurants it dropped a bit its revenue and loss a bit of gross profit.

Now, when we go to the next page, here we have another evolution presented throughout the year that was a drop of the financial -- consolidated financial results. There was a loss of 268 million to 149 million this year. This improvement of the financial result is associated to two factors, one would be the drop of the SELIC rate and here we have a break out of our debt more -- more than 80% expect to the CDI. So, this drop helped us in our debt and the size of the growth that that we had throughout 2016, when we compared to 2017. This is highly aligned with the deleveraging process that we have been conducting for some years in the company.

Now, when we see everything together, the improvement of operational results together with the improvement of financial results, we can see that 2016 to 2017, there was an improvement of almost 90% regarding the drop of the losses of last year.

Now, when we go to our next page, here we are analyzing what happened from the indicator point of view. This is the operating indicator point of view of the mall. Here we saw good increase in sales of retailers around 8.3%. We exceeded the BRL2 billion in terms of retail sales on 2017. Now when we see the operational indicators, all of them were positive same-store sales and the others, I believe, that it's very positive to see this indicators.

Now, regarding occupancy cost that is in the lower left-hand side, we -- our occupation rate was 10.2% that is the lowest occupancy cost. Here we see medium term opportunities to improve the profit. And in terms of commercialization, we improved 400 basis points between 2016 and 2017 and this improvement of commercialization rate is due to the Manaus Shopping that is the Ponta Negra Shopping Mall. Manaus Shopping, that is the Ponta Negra Shopping Mall and at a lower scale to the mall of Salvador that is Bela Vista Shopping. Both Catarina's Fashion office and Cidade Jardim have no vacancy. So, we can improve the commercialization rate.

It's important to highlight that the reduction of vacancy or the increase of commercialization rate doesn't only improve the revenue of the company, but eliminate vacancy expenses, especially condominium costs.

When we go to the next page, here we have an overview of what happened with our hotel and restaurant operation, and here we can see the City of Rio de Janeiro impacted the daily average occupancy, when we compare it of 2016. During 2016, we had record occupancy rates and this wasn't -- we weren't able to repeat this of 2017. Therefore, the average daily income was affected and what we can see occupancy rate, we lost 300 basis points. But I believe these are the indicators and we see that they are leaning towards the positive side.

In restaurants, we also -- of the EBITDA [ph] is stability. So, during 2017, there was more conservative approach regarding the average couvert and what we see during the fourth quarter and the first quarters of 2018, is a recovery in these indicators. Therefore, we have a realistic, more opportunistic view for this operation and this is connected to everything that is being done to improve the operational efficiency.

Now, when we go to the next page, we can see the evolution of real estate development performance. Here we have contracted sales got evolution in Fazenda Boa Vista and Horto Bela Vista in 2016. We accounted a cancellation of Bosque Cidade Jardim and did not happen this year and this results in a good improvement between contracted sales during 2016 vis-a-vis the contracted sales of 2017.

Now, regarding gross revenue, we also had an important improvement in gross revenue. This is mainly associated to the impact from last year with the -- with Bosque Cidade Jardim, because -- although the 2017, we had cancellations that we mentioned in the beginning of our call.

Now, when we go to our next page, we have a view, a view of our indebtedness level. At the end of last year, during the month of December, we ended a process, we extended

75% of the company's indebtedness. And we also lowered the spread that we had been paying throughout this 75% of the debt. Year-on-year, we dropped to the BRL150 million, which is highly aligned with the target that we established was to reduce our indebtedness. And we are ending the year with a debt, within an average time of 4.6 and average cost of 10.1% vis-a-vis 11.6%.

During 2016, on the lower side of this page here, we have a comparison between the bars, the darker bars that are the ones that show the former profile of the debt vis-a-vis the new contracted profile and we can see that our current profile is much healthier, when we compare it to what we had during 2016.

So, with this, I would now like to initiate our Q&A session. And we are at your disposal.

Questions And Answers

Operator

Thank you very much. Now, we will initiate our Q&A session. (Operator Instructions) Georgia Jorge is from Banco do Brasil, would like to pose a question.

Q - Georgia Jorge {BIO 20104788 <GO>}

Good afternoon. You said that you implemented management actions during the fourth quarter. Regarding hotels and restaurants, could you elaborate, which actions you implement, and when will you see the results of these initiatives in your indicators?

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

Georgia, thank you very much for your question. So, we can clarify this matter. The main actions that are being taken are related to variable costs, especially regarding food and beverages. So, we observe an opportunity to make this process more efficient improving our cost with food and beverages. And we can see that in some restaurants, we had a price situation that was a bit -- that wasn't updated and we're seeing revenue and cost expenses here.

Q - Georgia Jorge {BIO 20104788 <GO>}

Regarding the fourth quarter of last year, you announced 28 million, do you believe that this was something as specific from the fourth quarter, how do you expect the evolution of cancellations?

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

It's very difficult to give you a forecast regarding cancellations. What we can see today is a receivable account of very good quality. And I would say in average, it's better than what we had throughout the past years. Therefore, currently, we have no expectations during 2018 to see the cancellation levels that we saw during 2016 and 2017.

Q - Georgia Jorge {BIO 20104788 <GO>}

Okay. Thank you very much, Thiago.

Operator

(Operator Instructions) So, we are bringing our Q&A session to an end. I would like to give the floor to Mr. Thiago Oliveira for his final remarks.

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

I would like to thank all of you for your participation and mainly Rogerio Lacerda, Robert and the entire team for the results that we had in 2017. I believe that 2018 is a promising year from us because we will continue paving the way that we paved. So, that the company can go back to higher level in operational terms. So, I think everybody that is here and everybody that has strongly engaged during the past year. Thank you very much.

Operator

The JHSF Participacoes' conference call have come to an end. I would like to thank everybody for their participation. Good afternoon.

FINAL

Bloomberg Transcript