

Q2 2012 Earnings Call

Company Participants

- Jose Auriemo Neto, CEO
- Unidentified Speaker, Unknown

Other Participants

- Enrico Trotta, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcello Millman, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And welcome to the conference call to discuss the results of the Second Quarter of 2012 of JHSF. Today with us are Mr. Jose Auriemo Neto, CEO, Mr. Eduardo Camara, Executive Vice President and IR Director, Mr. Andre Rodrigues, Financial Director, and Mr. Marcio Fenelon, IR Manager.

We inform you that this event is being recorded and that all participants will be connected in listen-only mode during the Company's presentation. After, we will begin the Q&A session, when further instructions will be given. (Operator Instructions)

We'll present results will be simultaneously broadcast over the Internet via Webcast at www.jhsf.com.br/ri. This event will be replayed soon after it is over. We would like to remind Web cast participants that you may send questions to be answered during the Q&A session. The slides of the presentation will be available on the Internet for download at www.jhsf.com.br/ri.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call relative to the Company's business outlook, operational and financial projections and targets are based on the management's beliefs and assumptions and on information currently available to the Company.

Forward-looking statements are not guarantees of future performance and they involve risks, uncertainties, and assumptions, as they resort to future events that depend on circumstances that may or may not materialize. Investors should understand that general economic conditions, industry conditions, and other operational factors may affect the future results of the Company and may lead to results that differ materially from those expressed in such forward-looking statements.

I would now like to pass the floor to Mr. Jose Auriemo Neto, CEO. You may proceed, sir.

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon. Thank you, very much for being with us in 2012 for the First Quarter, and please let's move to page three. I think that the quarter was a quarter that was very much in line with our forecast, and we have been focusing on our recurring projects, recurring-income projects whose works are under way, especially the opening of the Salvador shopping mall.

They add a gross leasable area that is very relevant to us and strengthen the JHSF strategy to increase our recurring income business. And this area then becomes one of our main areas that were in the plan by 2015.

Our gross revenues reached almost BRL480 million in the first semester, a 3.6% increase over the first semester of 2011. EBITDA also rose 8.2% relative in the first semester of this year, relative to the first semester of last year, the net income reached BRL92 million, vis-a-vis BRL99 million in the first semester of 2011. And in the shopping-mall division there was an improvement in sales, 17.2% improvement in the first semester of 2012 vis-a-vis the first semester of 2011. And sales per square meter grew 15.5% in the Cidade Jardim shopping.

Another highlight, recurring income we managed to acquire a property in New York, which would be a recurring income project as well, which is net profit in the 50s but of a very high quality, just as all of our other projects in the segment.

We'll be implementing the project in the next two to three years. That's when we expect to complete it. And relative to our large scale projects, we have finished the market plan for Catarina. That's a large project, but together with the other projects that we develop, Catarina is going to bring sales and will bring together different activities.

Shopping malls, we have begun building the shopping malls, should be open next year, and the other activities that will take place in the Catarina project have been already finalized in terms of planning. The technical feasibility of an executive airport is being studied.

We have been working on this, and we believe that this airport will start of -- adds lot of value to the infrastructure. Additionally, in addition to the airport area, we should introduce a first area of the office building and the first buildings -- and the first residential buildings as well.

And on the strategy phase on page six, we have a very good slide that shows how much we are emphasizing the recurring income division. We currently have BRL93 million and we expect that to rise to BRL200 million by 2013 and BRL400 million by 2015.

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We are very large focus on executing this construction work about these projects. We already have the construction plans for all of these projects, and this is something that is a very strong focus for us. We want to keep the construction work moving schedule and the expected budget and also the sales of the commercial areas and shopping malls and in all the projects have been our focus as well. We have been investing in training our team so that we can maintain the project in line with our schedules.

On page seven you see that these projects have different characteristics. They all have given us operation by result and auto sales results, construction results, but you've seen the forecast.

I would envisage that in the second semester of 2012 or first semester of 2013 we should finish an important part of these projects, and this is going to bring us more margin and profitability. The volume in this area of business, this recurring income business, will let us deal with costs that are today's overhead and that today are allocated in projects that generate no revenue. So the Company's vision as a whole, we've got once these new projects are ready we will be in a better position to have a greater contribution margin for G&A costs.

Moving on to the real estate development business, we would like to highlight the strategic decision of JHSF. We are very selective in our real estate development projects. We don't want to launch a big number of projects. That's not our priority. What we think is that projects have to give us a consistent margin and that these projects have to be able to generate the expected margins, so all the projects that we launched in the last few years have these characteristics.

And according to the guidance that we established in 2011, some of the projects still have approvals pending, but we have been working very hard on this, all the teams that are involved in these projects, but we are now focusing on ensuring that the sequence takes places and that the projects always have the margins that we expect from our real estate development business. We have to be very careful in this area and we have to focus on projects that can give us the acceptable margins.

Moving on to page 10, there is a consolidation of our internal metrics. We work with a net asset value of discounted assets. We have real estate development area. We have all the net values, and then we have the recurring income projects also discounted to present value. These are the projects that are under way.

We therefore have an improvement in the asset value on a consolidated basis, and you can see the (technical difficulty) the Catarina projects. As the sequence of projects moves forward, we will be able to see an improvement in the asset account in the Company.

Now moving on to page 11, our accounts receivable was within expected level and considering the few launches that we made, we have been able to ensure profitability and margin. The BRL200 million of performed receivables and we are being very conservative in the discount policy.

Our portfolio has a good profitability and our debts are in line with the schedule for receivables for real estate development. We want to maintain a conservative capital structure, as we have been doing and the investments in recurring income, which is the pipeline that takes these projects to BRL400 million in 2015, these required investments and the balance sheet already reflect higher investing our funds.

The real estate development area continues, we have receivables from there. We have selling, so there is an increase in indebtedness, as we said would be the case in some other quarters, but this is supported by the projects that we have today in the Company.

So generally speaking, it is our understanding that the management of the Company has to be improved on a continuous basis. We have developed metrics for controlling projects and for monitoring costs and schedules and for monitoring revenues as well, and these programs are far-reaching. We have created an area, central purchasing and hiring area, contract management. These are areas we have created to monitor our ventures.

We have routine meetings with every director and the people in charge of each area, and we believe that this management style is extremely important to ensure that we obtain the expected results in each one of the projects while trying to do better. We actively pursue the implementation of the projects. We manage the pipeline so as to ensure the expected growth. This is a process that takes place every day in the Company, and we pursue this type of discipline in a very strict manner.

We believe this is the reason why we have been able to implement good strategy that we have in place, therefore growing the recurring income area and maintaining our real estate development business within the levels and the limits that allow us to obtain the expected profitability. And with this type of focus, the Company has been able to grow in a sustainable way.

This is what we have to announce today. I would like to thank you very much for attending, and my team and I remain here available to take any question you might have.

Questions And Answers

Operator

We will now begin the Q-and-A session. (Operator Instructions) If you are following the conference via Web cast, click on Question the speaker to forward your question to JHSF. Participants in the conference call in English, please ask all of your questions at once. Please wait while we form the queue.

Our first question comes from Mr. Enrico Trotta from Itau BBA.

Q - Enrico Trotta {BIO 16742911 <GO>}

Good afternoon, to all. Thank you, very much for the presentation, and I have two questions. First of all, I would like to have a little bit more color on the New York project,

how much you paid, what you intend to develop there? What's your objective of your project? If you could give us some more details about it.

Then I have a second question. The second part of the Cidade Jardim shopping mall will correspond to the second half of 2014, and you also have to review the GLA of that project.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

As regards New York, you see we begin to internationalize the Company, and we believe that there has to be focused on the high-income audience in Punta Del Este which was a project together with the Fasano Hotel, and also we developed the land that surrounded the hotel.

This project catered for an external public out -- for a foreign public but also for a Brazilian public, a Brazilian audience that wanted to have a property, to own a property in Punta Del Este to spend holidays in the hotel.

The project in New York has more or less the same characteristics. It is a property on Fifth Avenue across the Central Park, and we plan to develop a project that generates recurring income, so this is a project that involves leasing -- lease areas. We haven't developed the project yet fully, whether it's going to have the characteristics of a hotel or not, but we're planning this very carefully.

And what is -- was highlighting here is that the New York operation has an allocation of equity by JHSF Brazil that amounts to 20% of the investments and between 20% and 30% -- and it has its own leverage, which is dollar-denominated, which improves the prospective profitability -- should generate \$20 million, \$40 million.

As regards the Cidade Jardim shopping mall, we saw that the planning phase of this project allowed an improvement and an increase in the area, but it hasn't been defined yet. We are starting, but our expectation is that the postponement will take place because of this but we expect that there will be a small increase in the area.

We believe that this is one of the important points, and if we can add that additional area, it would be very important. The location is a prime location, and it's an area that is very much sought after, so if we can increase the project, we will have greater value add.

Q - Enrico Trotta {BIO 16742911 <GO>}

Thank you, very much for your answer.

Operator

Our next question comes from Mr. Marcello Millman from BTG Pactual.

Q - Marcello Millman

FINAL

Good afternoon. I have two questions. The first one has to do with the real estate development business. You talked a little bit about it in the beginning of the presentation about the challenge to deliver the guidance. It should be BRL1.3 billion for the second semester.

What is the pipeline like? You had some launches in Sao Paulo. We know that the situation is a bit complicated, but could you talk to us about the outlook in the real estate development business?

Then another brief question has to do with sales expenses in this quarter. There was an increase and the sales were not so good, so would you like to highlight anything in the sales side, the sales expenses side?

A - Jose Auriemo Neto {BIO 15324354 <GO>}

I'm going to start talking about the expenses. These had to do with the openings of malls, and in the recurring-incoming projects, as I was saying, they change the expenses ratio a little bit. Not all the expenses relating to the projects that we are implemented are part of the property.

Many of them are really expenses, so part of these expenses may be related to that and also the recognition of commission. We can leave the details about the expenses, but generally speaking this is what I can say now.

As regards the launches, as I said before, our projects -- we don't have many, many projects. We have basically four projects scheduled for launches by year end, Fasano Boa Vista, Catarina, and two projects in Sao Paulo. Sao Paulo has seen kind of a slowdown. We expect to make projects move forward by year end, but it is a challenge and there are aspects that do not depend on JHSF.

And also together with the schedules -- and we want to be very punctual and keep to the schedule, but we also have to make sure that the projects are very well designed to ensure profitability. So it's a bit premature. It's a bit early to do a more detailed view, but the projects that are not in Sao Paulo won't see any surprises or changes relative to the progression. And as we have more details, we will inform the market.

Q - Marcello Millman

Thank you, very much.

Operator

(Operator Instructions) Our next question comes from Mr. Luiz Mauricio Garcia from Bradesco. You may proceed, sir.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

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FINAL

Good afternoon. Good afternoon, to all. I have three questions. The first one has to do with the guidance for the recurring-income business, BRL400 million by 2015. We have seen some projects. You announced some in the release. Bela Vista was reviewed upwards and you have seen some projects with an upside potential relative to the initial value.

Without counting the New York project, which is not included in your account, does the Company see a potential increase in the guidance, or do you think it would be premature to talk about it now?

The other question -- I can ask one question at a time.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

We are trying to keep the projects updated in the best possible way according to the information we have available, so some of them will have a better performance and some are not included in the guidance, as is the case of New York and the airport. So we are being conservative in the way we increase the recurring-income business.

And just to -- you insist a little bit to the real estate development business, we are looking for clearer information so that when we are -- we have no uncertainty we can inform the market and maybe change the guidance upward.

What I can say is that we are working hard to grow this area in the Company, and we are doing the best we can, especially when we find projects that have consistent profitability and that are strategically aligned with the projects that we have (technical difficulty). --we have delivered 100 more or less to the store owners.

So these 100 million are being refurbished, which is a normal process. We've put a lot of effort into it, and the store owners as well. The final part is always a challenge to all. We have to have all the works by the expected date, but we think the project should open this year with all the stores and with very good sales.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

And what about approvals, licenses and so on?

A - Jose Auriemo Neto {BIO 15324354 <GO>}

We have seen very slow process in city hall of Sao Paulo to approve the project. We haven't had an impact as well.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

And the last two points are, I see that you have an additional PSV in the strategy of airport and I just wanted to I understand the use of this project, and if you can give us a little bit more color about the airport.

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A - Jose Auriemo Neto {BIO 15324354 <GO>}

As we maintained the beginning of the works for this year, and what we see beside trying to finish the airport. The corporate was an opportunity that we had to acquire a group of units from an investor that had purchased a number of units, and we ended up keeping these units. We were able to keep them at a very effective price and then resell it to the market.

So it was an (inaudible) PSV because it's an incremental price for these units that we purchased from the investor than we sold. This is good because the margin of this incremental price was very good.

The other question has to do with --?

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Airport.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

Okay.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

It's about the schedule, the time frame.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

We always have to say that an airport is a very complex project that requires different specific licenses and permits. We have obtained the air-related permits, but we also need environmental permits and so on. So we have begun the process to remove the -- believe it was a reforestation area.

The process of removing the trees takes some time, and we estimate that we start the earth works as soon as possible, but we established a final date for this type of project, which is very complex. I don't want to do it now.

This is subject to the impact of rainfall, for example, so once the scenario is more clear -- see, I want to be conservative here, but later we will be able to provide you with a schedule and the profitability with more accuracy later on.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

But the earth works and the beginning of the construction works, so you are beginning that, right?

A - Jose Auriemo Neto {BIO 15324354 <GO>}

No, we are beginning the removal of the trees, the eucalyptus, and then they're going to begin earth works. We have already requested permits, and the families in our request is

being analyzed by the complaint agencies.

Operator

(Operator Instructions)

The Q-and-A session is now closed. I would like to pass the floor back to Mr. Jose Auriemo Neto for his final remarks. You may proceed, sir.

A - Unidentified Speaker

I think there is another question from a participant. I don't know if we can allow the question if he asks.

Operator

(Operator Instructions) The Q&A session is now closed. I would like to pass the floor back to Mr. Jose Auriemo Neto for his final remarks. You may proceed, sir.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

Once again, I would like to thank you all very much for attending and to make my team and myself available should you have any questions later on. Thank you, very much.

Operator

JHSF Participacoes conference call is now closed. We would like to thank you all for participating and have a nice afternoon. Thank you.

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