

Q1 2016 Earnings Call

Company Participants

- Eduardo S. Camara, Chief Executive Officer
- Thiago Alonso de Oliveira, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andre Mazini, Analyst

Presentation

Operator

Good afternoon, and welcome to the conference call of JHSF Participacoes on the earnings of the first quarter 2016. Today, with us are Mr. Eduardo Camara, CEO and Thiago Alonso de Oliveira, CFO and Investor Relations Officer. We would like to inform you that this presentation will be recorded and that all participants are going to be in listen-only mode during the company's presentation. We will then start the Q&A session when further instructions will be provided. (Operator Instructions)

Before moving on, we would like to let you know that any statements made during this conference call relative to JHSF's business outlook, projections, operating and financial goals are based on beliefs and assumptions of company management and rely on information currently available. Forward-looking statements involve risks and uncertainties, since they refer to future events and therefore depend on circumstances that may or may not occur. Changes in the macroeconomic policy or in the law and other operating factors may affect the future performance of JHSF and leads to results that will materially differ from those in such forward-looking statements.

Now, we are going to turn the call to Mr. Eduardo Camara that will start the presentation. Please Mr. Camara, you may go on.

Eduardo S. Camara {BIO 2074637 <GO>}

Good afternoon. Thank you all for joining us. We closed the results of the first quarter and I would like just to talk a bit about the highlights of the first quarter, starting with recurring income. I'd like to highlight the success of our strategy in focusing on this segment of the business as our main focus. I think these are numbers that show the resilience and quality of our ventures, the good location, a suitability of our mix, and that leads us to bring results that place us in a favorable position that stands out in the market in which we operate.

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So I think this performance makes us all very happy and confirms how right we were in following business strategy for some years now, in focusing on this segment. Also in hotels and restaurants, we had very relevant growth of our RevPAR revenues, growth of that more than offsets some losses that we may have had in volume that the economic scenario brings, you're going to see the numbers in more detail further on.

And in the RE development segment, again this is a segment that we have been announcing repetitively for more than four years now. It's an area that is not our main focus, but being able to complete and deliver all the constructions in the state of Sao Paulo and reaching certificates of occupancy for the latest ongoing projects and this helps us to reduce our activities as we are planning to and closing those deliveries in Sao Paulo. We are going to have a very small inventory in the city of Sao Paulo, something in Salvador, that has been showing good performance in terms of sales and relevant inventories for the future phases of Fazenda Boa Vista, which is the fund development that you all know and that has value and recognition that are quite high.

Also, the area of development is suffering the impacts in the macroeconomic scenario, the country is going through. In terms of developments for second residencies, well, this is a market that is finding consumers a bit more cautious, a bit more reticent to engage their efforts in the maintenance of the second residencies.

It is a segment that does not have much flexibility. We are trying to protect the value of our assets, the value of our sales, even if it sets to mess [ph] with sales that are slightly lower and we are hoping for a better scenario macro-economically and a higher confidence from consumers and that this will translate in a higher sales volume in this segment. We had some cancellations that did have an impact on the results, but it's been very important to say that the impact in cash is much lower than the impact that we had in our results.

Additionally to that, the Executive Airport, we are quite close to its completion. The total investment that was budgeted for this phase zero is about 300 million, in that 80% of that has already been realized and we still have this remainder parts to go. And also, I'd like to highlight our continuous permanent focus on reducing our operating expenses for one more quarter, we did have a substantial reduction and we are working again from very close in this process and international operations, we had the closing of sale of assets overseas with consequent impact on cash movements and the reduction of our debt.

Well, with those comments being said about the quarter and a bit of the context of where they are in the economic moment, I'm going to turn the call to our CFO, Mr. Oliveira to complement our numbers. Oliveira?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Well, thanks, Eduardo. Good afternoon, everyone. We are on page four of our presentation. Here we bring our consolidated results for JHSF. I think it's important to mention each one of these indicators to understand how each business units behaved. As

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a whole, we had a very good quarter for recurring revenues, hotels whose impact in consolidated numbers were affected by the performance that Eduardo mentioned in the activities of development.

When we take a look at gross revenues and this drop of approximately 20%, where behind that you have shopping mall activities of growing a rate of 8% to 9%, hotels and restaurants growing by 10%, and because of the low performance of sales and some cancellations, we had a retraction of 83% in the gross revenues of development that had an impact in the three business units, in terms of EBITDA, recurring revenues, of course focuses shopping malls, our EBITDA grew by 19%, hotels and restaurants 25% and development head contraction of 152%.

As for our financial results, we have a small variation of 9%, this variation comes basically from two areas. One, we talked about the cash position that's slightly lower than the previous year. So revenues with the interest dropped and because of the macroeconomic scenario, we saw an increase of a stricter credit and that did have an impact on our net financial results. In terms of net income, well, this basically reflects three major numbers. One is the operating results of development. Two, the financial results that was slightly worse because of what I just mentioned. And finally, we did have in the first quarter of 2016, a recognition of fair value of the properties to invest, minus 22 million what we accrued to last year. So these three items bring to this reversal of our net income from positive to negative.

On page five, we show our mall performance. Once again a quarter with very good results, operating and financially performance compared to what we see in the market, follows above average and we attribute most of these effects to the focus that the company had on its portfolio in segment from middle-to-high income, a bit more concentrated in high income that shows to be a bit more resilient along the quarter compared to what we saw in other companies that operate in the same sector.

When we talk about sales, I'd like to say that the shopping mall of Manaus which had a very important growth in the first quarter this year compared to the last quarter last year, we are very happy with that. Our operations team worked very hard along the year of 2015 to reinforce the mix of that mall. That was therefore a quarter in which we started to reap of the fruits that we planted last year. And also Catarina Fashion mall, which is a mall that each month, each quarter has been bring quite positive surprises to us all.

Also to be highlighted on this page, we have the effect of our leased area, in the right bottom corner, we had a drop of 12.5 points in terms of leased rates and we are calling that a C&A effect. The C&A left two of the malls in which they had stores with us, and fortunately both areas are already leased for new retailers. So we do expect to recover our traditional movements in following quarters in terms of leased area.

Well, now I would like you to turn to page six. Here, we have a bit more details in terms of our real estate developments. What Eduardo mentioned in the beginning which is very important, you know that part of the company's strategy is to reduce the level of investments in this segment. We have lots of working capital allocated there, even in

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receivables or in inventory and with the exception of Fazenda Boa Vista. The inventory that we have for development is reducing constantly and this is an effort to that we have started about three or four years ago when our strategy changed. The results of this quarter as we had already advanced was impacted by some cancellations, basically concentrated on Bosque Cidade Jardim. We have an embargo on this development. We are working legally to try to clear the development, but we have seen some clients asking for cancellations and we have been dealing with them and also some cancellations on Fazenda Boa Vista.

When we take a look at the main lines, I would like to show the good performance of Horto Bela Vista. When you take a look at its performance in the first quarter this year compared to the first quarter last year, we have more than 50% of sales, the area where this development is more mature. Shopping Salvador -- Shopping Mall Salvador had [ph] also matured and with that, we believe that the units that are sooner or eventually being more appealing to consumers.

Also, the developments Mena Barreto, Townhouse and Residencia, they just got their certificate of occupancies in the end of this first quarter and we just have six units to sell, two in Mena Barreto and four in Townhouse. So in the city of Sao Paolo, this is what we have left in terms of inventory for development. Bosque Cidade Jardim and Fazenda Boa Vista are already mentioned, then so I would ask you to go to page number seven.

This page seven brings us a summary of what happened in hotels and restaurants in the quarter. Our view here is that we are quite happy with the results that we're having there. The team that manages Fazenda has being very skillful to go way around this more short term scenario the country is experiencing. We are seeing a contraction in several businesses, but in here we were skillful enough to offset any losses by the growth of our average couvert level and also a higher average tariff being charged. So we see revenue is going up, costs going up, but not as much as revenues, therefore it was a positive impact on gross profit and we had an increase of 25% in our EBITDA in this business unit.

That said, I would like you to turn to page eight. In here, we have a consolidated view of our financial indicators; the gross debt was basically stable along the quarter. We see here in our cash, equivalents and interest earnings bank deposits, the completion of the sale of assets abroad to reinforce our position. And down this table, we have the amortization schedule. We are continuing with the negotiations, it's quite advanced levels to try and have actions to allocate our debt profile. And in a timely manner, we are going to get back to market to give more detail on these operations.

Well, with that, we complete our presentation. Both Eduardo and I are here to answer any questions you may have.

Questions And Answers

Operator

Well, thank you. We'll now start the Q&A session. (Operator Instructions) Andre Mazini from Bradesco would like to ask a question.

Q - Andre Mazini {BIO 20377100 <GO>}

Hi, Eduardo, Thiago, thanks for the call. Good afternoon. My question is about occupancy rates. You had a drop in this line against other companies that had a higher occupancy rate. I know that you had some shopping malls with some problems like Manaus, I would like to know -- yes, the problems are being solved and if things are getting better, so that I would like you to elaborate on that.

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

Hi, Andre, thanks for your question. I think it's very thorough. In fact, I think this is the effect of three variables, you have growth in revenues, you have the impact of occupancy rate. If you take a picture in the end of the quarter, it did go down, but overall we were more occupied this quarter than the first quarter last year and also a very intense work that is being conducted by our operations teams for the shopping malls area to reduce direct and indirect costs of the shopping condos and also other expenses related to shopping malls.

So this is not a single action, it is a combination of three factors that led to a reduction in our occupancy rates. I think the main driver for us is the following. It is clear that we have to work to promote a growing flow of consumers coming to visit the malls and at the same time, we have to reduce occupancy costs. When we can find these two indicators walking hand in hand in a positive way, we are improving the quality of our developments.

Q - Andre Mazini {BIO 20377100 <GO>}

Okay. Thank you very much, Thiago.

Operator

(Operator Instructions) We're now closing the Q&A session. Now, we're going to turn the call to Mr. Eduardo Camara for his final remarks.

A - Eduardo S. Camara {BIO 2074637 <GO>}

Well, I thank you all very much for joining us in our conference call. And again, I myself and our IR team are here for any further clarifications you might need. Thank you very much and see you next time.

Operator

JHSF Participacoes conference call is now closed. We would like to thank you very much for joining us and wish you a good afternoon.

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