

## Q2 2017 Earnings Call

### Company Participants

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

### Other Participants

- Georgia Jorge, Analyst

### Presentation

#### Operator

Good afternoon and welcome to the JHSF Participacoes Conference Call to release results for the second quarter 2017. We have with us today, Mr. Eduardo Camara, the CEO (sic) and Thiago Alonso de Oliveira, the CFO and IRO.

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

(Operator Instructions) This event is also being broadcast simultaneously through webcast and can be accessed at the IRO site at [ri.jhsf.com.br](http://ri.jhsf.com.br) and through the platform where the presentation is also available for downloading.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call referring to business outlooks, and financial and operating objectives for JHSF are based on beliefs and assumptions of the company's management, as well as information currently available. They involve risks and uncertainties as they refer to future events, and therefore depend on circumstances which may or may not materialize. Changes in the macroeconomic policies or legislation, and other operating factors could affect the future performance of the company and lead to results that differ materially from these forward-looking statements.

We would now like to turn the floor over to Mr. Camara, who will begin the presentation. You may proceed, Mr. Camara.

#### Eduardo Silveira Camara {BIO 2074637 <GO>}

Hey, good afternoon to all of you. Thank you for participating in our call. I think that, generally we are presenting results that are quite positive. I would like to highlight in terms of recurring income, a consistent recovery with improvements in our default vacancy and

discount indicators, these and other points that I will mention will be mentioned by Thiago in greater detail.

In terms of real estate developments, we have a significant reversion of trend enabling us to have a more optimistic vision for coming periods. In Fasano, our results despite the economic activities, show the enormous performance that we have had in our regions. The impact was relevant, especially in the state of Rio de Janeiro and a general reduction albeit reversible in our business activities.

And finally, I would like to draw attention to the results of the Holding, where the greatest highlight is the reduction of more than 30% in our operating expenses. Thanks to a considerable reduction in the mandates [ph] this is the efforts deployed to reduce the debt. This is something that we have been discussing with you for the last six quarters and something that should perhaps be accentuated in the coming periods, the reduction of the SELIC rate, which means that our debt will be impacted by lower interest rates. And we have deployed great efforts in reducing our operating expenses, but the recent periods have still been impacted by non-recurring events.

This is a positive and very general overview of the recent results. And I would like to give the floor to Thiago, to speak about different businesses.

### **Thiago Alonso de Oliveira {BIO 6637078 <GO>}**

Good afternoon to all of you. During the second quarter, we had a gross revenue that has grown vis-a-vis last year. This is one of the relevant aspects of our analysis in the second quarter last year as part of the gross revenue of the company, we had the Shopping Metro Tucuruvi was sold in December and 30% of the Cidade Jardim Shopping Mall.

Despite the sale of these two assets, we still have a growth of 9.4% vis-a-vis the same semester last year. Now this growth can be attributed to the real estate development area that seem to be more normal when compared to the quarter in 2016 where we had a great deal of cancellations. In terms of recurring sales, we have stability in terms of our growth revenue. We have made an adjustment because of the sales and a minor drop in terms of hotels and restaurants, which we will encompass during the presentation.

In terms of adjusted EBITDA, the growth that we showed you, the contribution of RE development also led to a greater contribution to EBITDA. In the adjusted EBITDA base, we had a considerable improvement in the recurring income offsetting the losses that we had in hotels and restaurants.

And during this quarter, and we believe that this will continue on during the next two quarters on and off effects that will call upon the holding results, which means that, until the end of the year, this will represent BRL8 million.

So, the results of the holding beginning in 2018, we'll have a savings of BRL20 million in terms of their operating result.

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Eduardo has already mentioned the financial results, the efforts deployed by the company in the last few years that begins to show their effect in the makeup of our financial results. We had a lower debt going hand-in-hand with the drop and the SELIC rate expressively contributing to a drop of 34% in our financial expenses. The results could have been better if the receivable portfolio have had another index there especially, if we would have the inflation index there that had a very minor contribution this period, thanks to the drop of inflation in Brazil.

Finally, in net income, we have a drop of 92% from one year to the other. I would like to highlight that we have made no adjustments in terms of net income. Last year, we had a large contribution regarding the sale of assets abroad. In terms of recurring results, we have a better result this semester or in quarter, vis-a-vis 2016 and this is very much aligned in terms of the improvement that we observe in the macroeconomic scenario.

We go to page number five, to speak about shopping malls. The figures that you see here have already been adjusted for the sale of our stake that was carried out. We see that our store owners that have operations with us had a growth of 6% in total sales. The occupancy cost had a slight increase, but we're still very comfortable with the level and we believe that this is within market standards and day-after-day we seek alternatives to present an even more competitive occupancy costs for store owners.

We had a significant improvement in our marketing rates, there are some shopping mall that practically have a zero vacancy rate and most of our focus is to maintain this vacancy at zero, making great strides in this. We also observe considerable improvement associated to the Ponta Negra Shopping Mall, for those who follow-up on our calls, you will see that we have worked a great deal in that shopping mall implementing measure since 2015. And we took an important step in the middle of the second quarter with a further evolution that we will present until the end of the year.

In terms of these indicators, we're highlighting the same-store sales and same area sales with rather robust figures. And in terms of recurring income, the second quarter has been quite satisfactory. When it comes to the outlook, we saw that the month of July seems to confirm the strength that we observe during the second semester. Our expectation is that the year as a whole, 2017 will be better than 2016, although we did have a good year into '16 as well.

If we could please go on to page six of the presentation, here we see the performance of hotels and restaurants. During the second quarter, we achieved an improvement in the average daily rate offset by a drop in occupancy figures. What we see here is the hotel in Rio de Janeiro as the main factor that has drawn down the occupancy rate and the RevPAR and in a my smaller scale the hotel in Sao Paulo.

From the viewpoint of couvert sold, had a drop of 3.1%. A growth in Sao Paulo offsetting the drop in Rio de Janeiro as well as in Brasilia and we see stability between that two quarters. It is important to recall that during the second semester of 2016, we had high occupancy rates in Rio de Janeiro with higher average daily rate because of the

preparatory activities for the Olympic Games. This will not be repeated this year and that is why we are showing a weaker performance for Rio de Janeiro.

And we must not forget the economic and social problem that the City is undergoing. When we speak about real estate development, the quarter seems to look more normal than previous quarters. The Fazenda Boa Vista, we worked with full provisioning. At certain point, we had a great deal of volatility, we now see figures that are more palatable this quarter. This is a quarter where we still created a provision of 2.9 million above our receivables portfolio.

The company feels quite comfortable in terms of the fact that we will not lose this real estate, it continues to be used as surety of the sales paid for by installment. But we did carry-out a provisioning of gross margins for contracts that are based on financing. Very generally, the scenario seems to point towards a better era, with a drop in the interest rate, something that we have been experiencing since the end of 2016.

In terms of the offer of financing for the acquisition of buildings, this should deepen in the coming months, maintaining the trajectory for interest rates and a slight increase in the consumer confidence index. Much of this still impacted by the political issues of Brazil.

We go on to page number eight. I would like to highlight that we are attempting to improve the duration of the company's indebtedness. We're working on some actions that will lead to the reduction of the spreads that are charged at present. And we affirm our commitment with measures that will enable the company to have an improvement in the operational cash flow, the dividend for shareholders and other factors. Once again, this has been an important guide for our daily work in the company. We are not satisfied with our present day situation and we're going to continue to streamline this in coming months.

This is what we had as a presentation. Eduardo and myself will now be available for questions and answers.

## Questions And Answers

### Operator

Thank you. We will now go on to the question-and-answer session. (Operator Instructions) Our first question is from Georgia from Bank of Brazil. You may proceed, ma'am.

### Q - Georgia Jorge {BIO 20104788 <GO>}

Hey, good afternoon. And I do have two questions regarding the reduction of leverage that we verified this quarter. What is your planning for coming quarters and which are the alternatives that you are analyzing to continue on with this strategy? In terms of accounts receivable, I see that you have increased your provisions and why are you increasing this specific account?

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### **A - Eduardo Silveira Camara** {BIO 2074637 <GO>}

Georgia, this is Eduardo responding to your question. I would like to request that you please repeat your second question. But before you do this, I will respond to your first question. We are holding negotiations with our creditors and jointly seeking alternatives in the capital market and financing market that will offer us improvements in duration and the amortization terms, as well as a cost reduction not in the base rate, but in the spreads that are charged in these operations.

It is still very early to give you details, but this is important. We are of course holding discussions in this direction. And we would like to clarify and emphasize that the alternatives are being pursued and they are feasible and will make possible these two benefits that will help us have a more sound capital terms and cost.

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

As Eduardo has just said, Georgia, we also need to keep in mind the effects of the streamlining of our operational results in deleveraging of the company, one thing is to focus on our nominal debt and to focus on the results of our operating results. The entire market at present is working with gradual improvements for recurring income sector.

And in terms of real estate, what we're doing is not going to be a revolution, but based on what we saw six months ago, which was a negative trend, we now see a turn towards a more positive trend and this in combination with other measures such as a reduction in the basic interest rate and other timely measures that we're dealing with and that we will announce to the market, all of these should contribute to the improvement of our deleveraging indicators.

We have heard from analysts for some time already about the need of doing this work. We have taken significant strides in this direction. We would like to remind you that last year we reduced the company's growth debt by 50%. And of course, this is something that is very, very important as part of our agenda.

### **Q - Georgia Jorge** {BIO 20104788 <GO>}

Thank you. Thank you very much.

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

Regarding your second question, if I understood it properly, it has remained at the same level that we saw last year with a considerable reduction and which is the segment that is pulling down this provision for yield. While the provisions that we have this quarter are timely provisions for the real estate development field, we have a policy that is quite stringent and restricted in terms of developments. And what we are doing this quarter is still provision growth revenues referring to some contracts that we have for sale and that are presenting default.

So we have different choices, it takes back the property and eliminate the gross margin of that property or another possible path is to adapt the payment flows with the clients or --

clients. And once again eliminate the provision and what we have to do of course is to manage our balance to phase [ph] up to that delay that we see in our backlog.

**Q - Georgia Jorge** {BIO 20104788 <GO>}

Thank you. Thank you, Thiago.

**Operator**

(Operator Instructions) We would like to end the question-and-answer session at this point by giving the floor back to Mr. Eduardo Camara for his closing remarks.

**A - Eduardo Silveira Camara** {BIO 2074637 <GO>}

Once again, I would like to thank you for your presence and participation, and reiterate that the IR team and myself personally are at your entire disposal for any clarification. Thank you very much and have a good afternoon.

**Operator**

The JHSF Participacoes conference call ends here. We would like to thank all of you for your participation. Have a good afternoon.

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