

Q3 2011 Earnings Call

Company Participants

- Jose Auriemo Neto, Chief Executive Officer and Director

Other Participants

- Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the teleconference for disclosure of results for the third quarter 2011 for JHSF.

We have here with us Mr. José Auriemo Neto, CEO; Mr. Eduardo Silveira Camara, Executive Vice President and IR Officer; and Mr. Marci Finlo Manger.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the presentation of the company.

Next, we'll open for Q&A, when further instructions will be provided. [Operator Instructions]. This event is also being broadcast simultaneously via Internet via webcast and you may access it in www.jhsf.com.br/ri.

The replay of this event will be available right after it's end. We would like to remind you that webcast participants may pose their questions to be answered during the Q&A session. Slides for the presentation are also available for download in the Internet in the address www.jhsf.com.br/ir.

Before going on, we'd like to clarify that any declarations that may be made during this conference call relative to the company's business respective, its operating and financial targets are based on the beliefs of reports of JHSF as information currently available for the company.

Future considerations are not guarantees of performance involving risks and uncertainties and premises. They refer to future events, which depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industrial conditions and other operating factors may impact the company's future results and may conduct results which differ substantially from those expressed in these considerations.

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Bloomberg Transcript

I would now give the floor to Mr. Jose Auriemo Neto, CEO. You may go ahead.

Jose Auriemo Neto {BIO 19516232 <GO>}

Good afternoon. Thank you for joining us in this results conference for 3Q '11. For those who are also following the presentation, we start by showing an analysis of the company's less than few years to give us a strategic overview of how the company have been evolving.

The next pages will show the evolution of adjusted net income you see that we manage to grow the income of the company, the last four years. As you see on slide number three. And as in first nine months of this year we had accumulated income of R\$170 million and in line with our projections.

EBITDA for the last four years went from 127 to 281 and this year we already reached 231, so also can increases those of the last year.

And in terms of revenue also in the last four years we grew our revenue from 315.4 to 967.4 in 2010 so both revenue and margins in the last years showed very good evolution and YTD, this year we had 703 million in revenue. For the last four year we also managed to -- have good EBITDA margins results and we were able to pay good dividend with an average payout of 48%, along the last four year.

With year-to-year increase as you can see on slide number six, showing the 887% evolution between 2007 and 2010 in the next full year our cash an equivalent also posted very good position in addition to paying dividends we have we have had enough cash to go on with our projects and plans.

From pages eight and nine, you see our net position for the last year which is very conservative, our accounts receivables today is around 1 million to 200 million, 200 million are receivables from real estate. You see on page nine, the performance history and the negative the net debt.

And you can see that at the end of this quarter the position we took 54 million in net debt considering the account receivables as an important part of our analysis. So from 340 million to 350 million we have to consider the receivables. So its a very good scenario, we managed to grow, the company grow income, grow revenue, pay good dividends always with an conservative capital structure.

Assets, it's also important to remember that will go on with these cash. And in line with the projections for an increase in revenue to go to 400 million by 2015, we meet investments, important investment in assets but this is an area that we've seen important to grow, and also not to push too much the market of real estate development, we want to keep the quality of our project and our positions. For growth in payouts investments and some increase in the net indebtedness of the company, always very conservatively, always met with the long-term project that we have.

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Page 10, shows that we have a good, a difference between the market values and the assets value, we have always been guided by this philosophy currently in the company's assets in a basis of qualified projects and page 10 shows the criteria adopted by basically we have the receivables in terms of developments inventories and inventories where we have, if its structure and all -- always -- we never considered here the PXE for the future.

In other case of shopping malls and offices, we considered the projects that are being developed so that are under construction. We're not considering any projects that have not started yet or that the land has not been acquired, so the -- is grow the company, growing also the value of intrinsic assets.

In terms of the real estate development, the highlights for the quarter, we managed to sell our projects very well. The sales levels have been very high in -- really if you can see them one by one. But in general the project have had good acceptance, good penetration, good sales feed -- this perhaps ensuring a very good sales rate in terms of results we had revenue growth of effective 64% EBITDA, 69% EBITDA of next year and we have been able to keep net margins in good levels.

In terms of execution, we manage to deliver -- these are which is a very important project with many challenges in the way of construction, and this is very relevant because we're talking here 55 residences all build at the same time, a project with delivery within this schedule, we also delivered the first, yielding our first Cidade Jardim Corporate Center, which also had its construction finished then we have two other buildings to be launched in December and March next year. We also managed finished -- success occupation.

A project which started at the revenue generation.

In terms of the development, the challenges are to maintain the discipline on the control and performance of the construction site, keeping the constructions within the time schedule invited. We have been focusing on that a lot in the last year, we developed internal mechanisms for control which have been proven to be efficient but we know that this is a very relevant very important topic for the next year also.

So the responsibility for the good performance of the project. In spite of the cost, we have been investing a lot in technology, assistance and people training to do so. We also managed to grow the work -- and also in terms of challenges, we have the revenue of 200 million for 2013, and 400 million 2015, lands are all purchased and if you see the landing, the profound project and other projects -- and other projects which have not been disclosed yet. But it will show us a good -- and we'll make it able to reach the target -- we want the best balance, possible between this year and next year.

In terms of malls and offices as we said this is an area where we really focusing this year and the next year. We managed to launch Catarina outlet, the first outlet in our company. And this project we have a number of different brand from Cidade Jardim, both domestic and international brand and 55% of the profits already sold.

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That they're being shopping also a mall 64 which will be in -- street and about the integrated with the Fasano Hotel, the focus for these project is always whenever we can to integrate the hotel. We think this is a very important effort.

This is also for high standard, high end brands and some of them have already signed a contract with us domestic and international brand. So we have other malls with sales also very much advanced. The highlights of these falls in operations that we are seeing, we have seen an evolution in sales reported by the store owners with consequent positive revenues and EBITDA.

We have to deliver the keys to shopping -- to store owners, a mall that is within the time schedule and within the budget and the store owners are receiving the keys and will have the mall inaugurated at the beginning of next year. This is our focus for all the projects in our cost volume.

Also in the way of challenges, page 14, maintenance and discipline, all the control and performance of construction side has been very impact also for the mall. We have noticed that in spite of an increase in demand in this type of construction in the countries, we are mitigating the impact and we are meeting the target.

We assure that our pipeline of projects which leads our growth revenue to 400 million by 2015 will be met. At the corporate level, the most important highlight are that the funding for these projects is solely equalized with the funds from the company total cash generation from projects already sold.

Account receivables some structured operations that have already been equalized and contracted. We also have a challenge to equalize the free float of the strategic vision of the companies that this operation should occur not necessarily going through stock exchange negotiations. We are accessing the possible options for the company but most probably we'll ask in a more pragmatic sales.

We'd also like to highlight that we held an Annual Meeting, we always held an Strategic Planning Meeting for the company every year and it usually brings this very good result in terms of aligning the objectives and also gives us a possibility to reach a larger number of collaborators in terms of what our strategies are, where we want to get. And we are able to listen to the team as a whole, this is very productive. We believe this to be very important or the year to come.

So, the engagements of people is very important and we're very attentive to that, very careful in our project management. We have attached some more data about the malls. But I think I have covered the most important point.

I will emphasize to be here, in case you have any questions and answer your questions. We'll now start our Q&A session.

Questions And Answers

Bloomberg Transcript

Operator

Good afternoon. I have three questions. In terms of development, can you update us on the pipeline for the fourth quarter because we're almost in the middle of it, how this flowing and does not only that if you could talk about the Catarina launches, you talked a little about the outlet but I would like for you to elaborate little bit more about that. And on malls have you seen any impact on Cidade Jardim after the opening of -- JK and if you expect any difference?

A - Jose Auriemo Neto {BIO 19516232 <GO>}

Okay, Marcello. I got it. Pipeline for this year the two projects for São Paulo Cidade Jardim and Corporate Cidade Jardim entail 230 million and one of the projects 100 million for the other one. 330 million, if you were 350 which have happened you're talking around 700 million and we should have another 100 million in Salvador.

So the Q3 would be close to 800 million, 900 million this is our expectation, there maybe a variation because the size of the projects still not close, In terms of Catarina we are going to start pre-sales this year and the official launching of the first thing is for the first quarter next year.

In Catarina the task with the destruction fact and this is a very aspect with this project. So when this is not all the challenges in terms of construction will be solved.

As regards to JK shopping malls in spite of having similar product. Each one of the malls has different characteristics so there is a fine tuning to Cidade Jardim at a --of anticipating it's expansion. In this quarter we have the disclosure and we show that we are expanding the mix of so important international brands like Louis Vuitton which is going from a store of 350 meters to 1,200 meters.

The other brands that are also coming to Cidade Jardim like Cartier and Chanel, Chanel is expanding store, Gucci is also holding its flagship in Sao Paulo there. So we're very much prepared and the four owners see a differentiation and -- the features of each product. In our view, the shopping mall is very consolidated and it's ever more betting. The store owners who were not here once to join us so we're very happy in this respect. Thank you.

Operator

[Operator Instructions]. Our next question comes from Sebastin -- from Brazil Research. Mr. Sebastin, you may proceed.

Q - Analyst

Hi guys, good afternoon. I was just wondering if you had to offer any incentives to the tenants in order to fill slow pace in your pipeline more developments, such as free rent period or things like that if you could just elaborate ?

A - Jose Auriemo Neto {BIO 19516232 <GO>}

So -- your question whether there is an incentive for the leases, my question is -- my answer is that there are some items not many but some items are very specific, very much the interest that the store may have that a store may have that mall but always bear in mind the CapEx, the feasibility of the project. The return on the incentive is guaranteed and a loan and with the return rate that is also compatible with those of the projects.

Operator

[Operator Instructions]. We are bringing the Q&A session to close. I would like to give the floor now to Jose Auriemo Neto for his final words.

A - Jose Auriemo Neto {BIO 19516232 <GO>}

I thank you for joining us and we are here available myself -- we are available if you have any questions. Thank you very much.

Operator

JHSF Participacoes teleconference now come to an end. Thank you very much for participating and have a nice afternoon.

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