

Q1 2013 Earnings Call

Company Participants

- Andre Rodrigues, Chief Financial Officer
- Eduardo Camara, Executive Vice President and IRO
- Jose Auriemo Neto, Chief Executive Officer

Other Participants

- Adio Amargo, Analyst
- Christina Barbosa, Analyst
- Luiz Mauricio Garcia, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the conference call for the earnings for the first quarter of 2013 for JHSF. We have present with us, Mr. Jose Auriemo Neto, CEO of JHSF; Mr. Eduardo Camara, Executive Vice President and IRO; Andre Rodrigues, CFO; and Mr. Marc Grossmann, the IR manager. We would like to inform you that this event is being recorded with simultaneous translation into English. All participants should be connected in listening mode during the company presentation and following this, we will begin the Q&A session when further instructions will be given. (Operator Instructions)

This event is being simultaneously broadcast over Internet via webcast at the address www.jhsf.com.br/ir. The event will also be available for replay as soon as this ends. We would like to remind participants on our webcast that you can ask questions in the website and they will be answered in the question-and-answer session. The presentation slides are available on Internet for download at <http://www.jhsf.com.br/ir>.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call relating to the company's business outlook, financial and operational targets and projections are based on the beliefs and assumptions of the JHSF management and on information currently available to the company. Forward-looking statements are no guarantee of future performance as they involve risks, uncertainties and assumptions that refer to future events which 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, thus leading to results which differ materially from those expressed in such forward-looking statements.

I would now like to give the floor to Mr. Eduardo Camara. Mr. Camara, you have the floor, sir.

Eduardo Camara {BIO 2074637 <GO>}

Good afternoon to all. Thank you for taking part in our conference call and you can follow me on page two. As part of the highlights of the quarter, it is important to draw attention to the total implementation of the strategy, that is our focus now all of this has been taking place and materializing in terms of recurring income that has growth. We have opened the Bela Vista shopping mall last year impacting our results positively. We also have the development of the Tucuruvi subway that has been completed. We have Ponta Negra and Catarina Outlet that are according to our forecast. Furthermore, we have the opening of significant stores once again giving a strength to the Cidade Jardim shopping mall.

As everybody knew, at the beginning of the year, the lengthy approval processes postponed some of our launches. Until they are ahead, we will see the good news that many of these delays have been resolved and some of the processes have been completed. We have the acquisition of a building with a PSV of 60 million and our NAV while we are using our calculation that shows a value that is almost double compared to the market value.

If you go on to page three, if you see, we have a comparative graph of the figures of the two periods and what I would like to compare here, note that prior year is that these figures are perfectly in line with our budget in Q3 or higher than our internal flow charts and they reflect the characteristic of this year as the main recurring income operations come into play and begin to contribute to our revenue during the year. And as the launches have been in classified, the lengthy approval processes, we will have all of these impacts in our revenue further along in the year. We foresee a very good year, coherent with what the company has projected lately. We simply perceive that there is a growing distribution throughout the year of our results.

From the following page, page four, I would like to go into greater detail on our income highlights. It is important to refer to the growth in sales in Cidade Jardim per squared meter, the Bela Vista shopping mall had a significant growth in the last quarter. In some of the cases, the comparison is to be in the first (inaudible) seasonality during Christmas. But as you can see, all of our figures are highly favorable and this is what we have seen with the growth of sales and the opening of new stores. In the Metropolitan and Platinum buildings where we still own 22% of the assets through our real estate funds, the application and the lease amount have had a satisfactory performance.

I would like to refer to the figures of the income with shopping malls and commercial leases on page five. We can see the improvements in the revenues, the growth of Cidade Jardim and the opening and ramp up of the Bela Vista shopping mall. All of this has had a positive impact on our margins. And I draw your attention to a concern that we need to address more appropriately or in more comprehensive passion when it comes to reporting this division, because we have an activity that supplies power, that supplies

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telecommunications, air-conditioning to the shopping mall and the nature of the business of (inaudible) is to purchase power.

Therefore it has a significant cost, of course that have an impact on our margins. They have equipment with a shorter life span under PPE and because of this the depreciation is proportionally greater than the building itself.

We have the sovereign company that manages the condominium with revenues associated to people. Now all of these examples that I am mentioning are examples of activities that have lower margins. They are comfortable margins, they are positive margins, but nonetheless lower than the typical margins of a shopping mall operation or a commercial building operation.

And in a certain way this store can contaminate our margins. This is something that have to be redressed and that has reported separately. We are working on this, but I would like to highlight that there is an internal dispersion caused by all of these activities that are meant directly to our enterprise development. The owners of these developments were simply the managers.

Then on page six, in terms of our real estate development, we had a reduction once again due to the lengthy approval period mentioned beforehand. However, we are optimistic we have several launches that will be carried out soon as well as Vista phases for an aid have -- a permit the Cidade Jardim shopping mall has overcome all of its stages, Mena Barreto and Town Houses. Mena Barreto is under construction and our other buildings as well. Therefore, we will eventually come to the higher levels of launching and our real estate development will gain speed in terms of sales during the launching period and this will be a positive contribution to our revenues.

Still speaking about real estate developments, I would like to highlight our operational income. Half of our flow comes from receivables and a smaller part that is the certain liquidity of the values to be realized is quite strong and we will drill on these figures further ahead. Our activity in hotels and the Fasano brand, which is the focus on one of our priorities of seeking new ways to grow and to use a trend, all of this has had a very positive performance. We have had a growth in occupancy rates and in the average rate and this fully corresponds with our expectations.

If we go on to page nine, we have details of accounts receivables and especially the profile that is entirely for the short-term and this reflects the higher speed of payments of our clients and the stages of completion of the enterprise in five levels where it will be delivered with significant receivables.

On page ten, we speak about indebtedness. It is -- the indebtedness was a slight growth compared to the former period. It continues to be well distributed through time. Our debts are always contracted in the long-term and with significant grace periods. And I would like to emphasize that this is a reflection of that moment of transition of the company. We are coming to the end of our successful cycle of strong development in

terms of income. We have two enterprises that have come into operation recently and another two enterprises that will come into operation this year.

As a result, this ends the period of significant investments and also contributes towards our cash generation and the increase of revenue. Therefore, this trend will change as soon as our investments in CapEx stop, and we begin to receive the profit from this operation. After the end of the quarter, as I mentioned, we had the inauguration of the Tucuruvi Shopping Mall with a very favorable performance equal or higher than our expectations.

We approved two phases of the Fazenda Boa Vista for its launch and today we have carried out the payment of 180 million in dividend. At the last assembly, we set up our Fiscal Council. It is a Fiscal Council with every representative people from our milieu. [ph] We have Professor Ariovaldo from FEA, from OC and two former Price partners, one of whom is responsible for the auditing area in Brazil.

He has already retired and responsible for the technical quality of human resources in Price Brazil. The other partner has also retired from Price. He was an audit director for important companies. It is our understanding therefore that we have greater growth than what we had formerly, because of our corporate governance.

For Tucuruvi on page 12, we have some statistics, we have the testimonies of store owners that had rather pleasant surprises when they opened the store, the first inauguration of the entire network with more than 100 stores and this has gone beyond our expectation. Qualitative information is that there is a high flow of people in the shopping center, and the people going to the shopping center are not simply visitors, curious tourists, they have the profile of buyers.

On page 13, a summary of the characteristics of the airport that we're developing close to Catarina Parque. This is a private airport that can be used for international flights. It is very necessary at the moment when the airport cannot service executive aviation. This is an important segment and here you see some of the activities and characteristics of the airport.

Outlook for 2013 inauguration in mid-year of the Ponta Negra shopping, Catarina in the second semester both with a very positive evolution in terms of sales. We have the opportunity to assess a shopping center linked to a subway station. We are going to begin the work at the Catarina airport very soon and we're looking to begin the works for Reserva I and II.

We have a project to lease this to educational activities as part of the surroundings of Fazenda Boa Vista and we have had an evolution in the newest project as mentioned formerly as launches that have been scheduled with their approval process has already completed and we have Boa Vista, Las Piedras, Catarina and the developments in Sao Paulo in the Cidade Jardim and Mena Barreto neighborhood. As I mentioned in terms of our receivables at the end of the year, we will conclude nine out of the 11 towers of

Salvador, Boa Vista Shopping Mall and precisely at this moment, we are also delivering another enterprise.

Page 15, to end our presentation, and I go back to the NAV figure mentioned before. The way in which we allocate value to our development is valuable and superior to market value.

With this I end the presentation and all of us here are (inaudible) to answer any question you may have.

Questions And Answers

Operator

Thank you very much. We will now go on to the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Adio Amargo, Itau BBA. You have the floor, Mr. Amargo.

Q - Adio Amargo

Thank you. I have two questions, the first about the recovery of launches. We have mentioned that this had stopped because of the approvals. I would like to have a clear idea of the number of launches that you are expecting. What I also noticed is that you seem to be selling your inventory well. Which are the sales expected for these enterprises? This is the first question. The second question is even broader and it refers to outlets. What is your opinion of this segment? There are several operators focusing on this luxury segment. Which is the competition that you are going to face? Are you going to begin acting differently as you are sovereign in this market or will you continue working in the outlet segment? These are my two questions.

A - Eduardo Camara {BIO 2074637 <GO>}

Regarding the launches, they are in accordance to our guidance of maintaining launches for BRL1 billion on the average for the long term. The PSA, the individual ones, if you allow me, I'm simply checking them. Adio, my apologies. I will prefer not to speak about individual PSVs because we haven't given you the guidance for our projects.

What I can say is that we have enterprises of hundreds of millions of reais with PSV, Bela Vista. All of the phases has enlarged presence of -- represent hundreds of millions of reais. Somehow it is a somewhat smaller enterprise, it was a unit which has already launched, we have already disclosed the amount. I apologize once again for not being more specific because I deem this to be very consistent and it gives us the comfort to continue working in this direction.

You talk about our inventory, well, later on we can give you some statistics, but our launching speed for sales is quite high, the most recent data is up more than 60% in the residences. Well, we are going to put aside this information in terms of velocity of -- and

these are evidently very large numbers, 80% has been sold in the residence that was sold in the previous quarter. This is strong part of our business.

And in terms of the outlets we are extremely enthusiastic with Catarina. It is a project that made sense in the Catarina asset, it's typically consistent with the location of this real estate development. And, yes, we do need to have these important brands with a differential mix of products and we do have a significant competitive edge when it comes to competition. It is the time of opening, we are ahead of the competition in this front.

Q - Adio Amargo

Thank you very much.

A - Eduardo Camara {BIO 2074637 <GO>}

Thank you, Adio.

Operator

(Operator Instructions) Are there any remarks? You can continue, Mr. Jose Auriemo. Are there any further questions? Mr. Jose Auriemo Neto, you have the floor, you can proceed. Please hold while we collect our questions. Thank you. Ladies and gentlemen, we ask that you please hold while we collect our questions. Thank you. (Operator Instructions) Our next question comes from Mr. Luiz Mauricio Garcia from Bradesco Bank. You have the floor, Mr. Garcia.

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

Good afternoon to all. I have two questions. First, the funds with Rio Bravo, if you could speak more about the fundraising and which is your expectation, when you hope to have your raising stage concluded and if there are any changes in terms of what you expect in terms of profitability of fund. The second question refers to the airport. If you could speak about the environmental licenses to begin the work and what you will be doing subsequently in terms of selling the land or bringing in a strategic partner. If there has been any change in terms of your expectations when it comes to the airport, not only in terms of the beginning of work, but the entry of a strategic partner.

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

Mauricio, in terms of our real estate fund, absolutely nothing has changed. The profitability outlook continues to be the same. Once again, absolutely nothing has changed. Everything is advancing as initially scheduled and on a very positive track. There is nothing novel, but we do have an evolution.

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

And your expectation for completion?

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

Nothing has changed.

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

(inaudible)

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

I prefer to be somewhat vague, if you allow me, Mauricio, my apology. Some of the information is part of the quiet period, some have been disclosed, I will prefer to be vague once again. Once again, this is the normal period for the industry, which will give you an idea of what would be reasonable and I assume that there will be a publicly divulged schedule.

As regards to the airport, there were two questions. One refers to the licensing, the environmental license. This month we will have a clear definition of the terms to begin the development. We're very optimistic, in terms of the company we're going to bring in a financial partner. We have held preliminary negotiations with very positive reaction.

We are culminating the details and completing the structure of the company to define how it will be and very soon we will begin the formal fundraising process. Nevertheless, I would like to highlight we're not speaking about strategic partners but financial investors.

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

That is excellent.

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

And when it comes to the environmental license, once again the definition should come about this month for the beginning of work. We do not think this will be a problem.

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

Thank you very much.

Operator

Our next question comes from Mr. Christina Barbosa from Santander Asset. You have the floor.

Q - Christina Barbosa

Good afternoon, Eduardo and Marc. I would like to know when you are going to release the information on Torrent [ph] as this is gaining importance in the company and if you could speak about the acceleration of sales in Cidade Jardim per square meter. What happened in the first quarter? Which are your expectations of the second quarter and what is happening with other shopping malls?

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A - Andre Rodrigues {BIO 17964192 <GO>}

Thank you very much for the question. When it comes to being more specific in terms of our revenue information, as we expand our assets, it will be more feasible to present the information to you. We have a single asset which was the Cidade Jardim Shopping Mall. We had commercially strategic information which did not allow us to divulge this information as we wished to do. We would like you to have an in-depth knowledge of what is happening, but once again we are dealing with strategic information. I cannot be more precise than this.

But as we have an expansion of our number of assets and this is advancing as scheduled this year, we will have to move on to offering more detailed information. For the same reason, to speak about the future of our sales growth, I can say that things are advancing as foreseen, 18% of growth for the first quarter 2013 compared to the first quarter 2012, and now we are very optimistic about this year.

Q - Christina Barbosa

And in terms of your sales per square meter, it is 1.8 which seems to be somewhat below what others have shown. Could you explain the reasoning of this number?

A - Andre Rodrigues {BIO 17964192 <GO>}

I'm not quite sure if I understood your question, Tina.

Q - Christina Barbosa

The sales per square meter in Cidade Jardim grew by 1.8%. This seems to be somewhat smaller than what was presented by other shopping malls and I would like to know, which is your understanding of results. Cidade Jardim shopping malls compares to others, have you researched this figure.

A - Andre Rodrigues {BIO 17964192 <GO>}

I believe that our business model perhaps is not comparable to the general average of shopping malls. We look at our positioning vis-a-vis our direct competitors and through the metrics where we assessed ourselves and assessed our team. We feel that we are in a favorable position. We have a favorable mix. We have sales that are progressing adequately. Therefore to compare ourselves with the industry in general is something that we have not processed and to speak more qualitatively and not quantitatively, we feel well positioned when it comes to our direct competitors, which means that we do not think there is a slowdown in low income segment. No, this is not what we have felt. Thank you very much. Thank you, Tina and I'm so sorry, I could not be more precise.

Operator

Our next question comes from Mr. Adio Amargo from Itau BBA. You have the floor, Mr. Amargo.

Q - Adio Amargo

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Some more follow-up and this refers to Tucuruvi. I am not sure if you can speak about this. You have said that Tucuruvi has a focus on high income people and Tucuruvi has the asset of the subway, which means that we are dealing with middle and low middle buyers. Does it make sense to have a real estate fund selling these assets and what are you going to do moving forward as your target audience is a high income profile?

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

Adio, you are quite right. I truly cannot answer your question. Our focus is to sell this asset, make sure that the asset is profitable and that it will contribute to our recurring income. There is no discrepancy in having an asset like this one. The shopping mall and the subway from several viewpoints requires learning to do works in a subway station can be very complicated.

And to benefit from the flow of people that we have in the shopping mall of this type, the logistic aspects of occupying a subway shopping mall is a technology that we have a good grasp on. We have 15 years of experience in this method. Therefore this business is part of the competitive edge of our company. And the fact that the profile is different from the high-income profile, does it mean it will not fit into our portfolio. If we look at Finache [ph] as part of BBR or if you look at other companies that are focused on higher income on luxury markets, there is that more democratic extension when it comes to our activities. And I draw your attention once again, Tucuruvi is part of an experience that we have and this gives us that competitive edge over our competition. We are going to take full advantage of the competition and of this experience that we have.

Q - Adio Amargo

Thank you. In your release, you spoke about developing an additional shopping mall linked to a subway station. Would you have an additional comment or further detail that you can share of what this is for later on during the year?

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

There is not very much more than I can say at this point. I can say that it is located in an area where strong consumption potential with an area with very good surroundings. It is now a shopping mall with the price of the Tucuruvi Shopping Mall. It is somewhat smaller and unfortunately I cannot say much more at the moment. As we have a greater grasp on this and more information, evidently we will release this information to all of you.

Q - Adio Amargo

Thank you very much.

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

Thank you.

Operator

(Operation Instructions) At this moment, we end our Q&A session. I would like to give the floor to the company for the final remarks.

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

I would like to thank all of you for your participation. And so far as was possible we hope to have clarified your doubts and responded to your question. So once again, this process will not end here, the IR team and the Board of the company are once again at your entire disposal for further clarifications and questions. Thank you once again.

Operator

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

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