

## Y 2013 Earnings Call

### Company Participants

- Jose Auriemo Neto, Chief Executive Officer

### Other Participants

- Alan Nicola, Analyst
- David Lawant, Analyst
- Gustavo Cambauva, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and welcome to the conference call of JHSF Participacoes to discuss the results for Q4 2013 and the years 2013. Today with us are Mr. Jose Auriemo Neto, President and CEO; Mr. Eduardo Camara, Vice President and IRO; Andre Rodrigues, CFO and Marc Grossmann, Director.

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

Before proceeding, let me clarify that any forward-looking statements that may be made during this conference call relating to the Company's business outlook, operational and financial projections are based on beliefs and assumptions on the part of the Company's management and on information currently available. These forward-looking statements involve risks and uncertainties and have to do with future events, which depend on circumstances that may or may not materialize. Changes in the macroeconomic policy or in legislation and other operating factors may affect the future performance of the Company, thus conducting to results which differ materially from those expressed in such forward-looking statements.

I would now like to turn the conference over to Mr. Jose Auriemo Neto, who will begin the presentation.

#### **Jose Auriemo Neto** {BIO 15324354 <GO>}

Good afternoon to all. Thank you very much for attending this conference call to discuss the results of Q4. And I would like to start with some comments about the evolution of

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the business in our divisions, I will try to address our vision of the year, and also, I would look at the past year.

Last year, in terms of revenue, EBITDA and cost and income in the recurring income division, these results were in line or even slightly higher than our projections and our expectations.

Our shopping malls performed very well. They all grew and posted good margins. The Cidade Jardim Shopping, Horto Bela Vista, Metro Tucuruvi and Shopping Ponta Negra in Manaus, these shopping malls were opened, they are now maturing and they accounted for the good results of Q4.

We saw also the proportion of recurring revenue in the Company. On page three you have the shares of these units and this share has increased relative to the average of the year and relative to the previous quarter.

And also, in the development business, we saw results that were hurt by some non-recurring events, especially in the Horto Bela Vista project in Salvador. This project is being completed and on the one hand it generates a lot of cash and we'll continue to generate cash in the next few months and especially in 2014. But, on the other hand, since there were increases in costs relating to the completion of works, this increase in costs also hurt the results of the development business. This scenario was expected.

The development business is more seasonal and it's more cyclical than the recurring income business. And also, in addition to what happened in Salvador, we also have to think that we are finalizing a large project. And of course, the revenues are accruing, but some projects that have not started, do not have the revenues recognized. And this contaminates the results in the (inaudible) projects are being completed in (inaudible) and for the projects that are starting the revenue has not been recognized at a good faith yet.

Given these characteristics, I mean, these are the most relevant factors in the Company's results, we are very optimistic with the future. I think the market has shown that the mood for sales in the real estate development business is not bad. The perception that some have that there is an optimism relative to the economy or the country. This perception of people who are not optimistic for this year, I mean, this was not in line with what we see in the numbers. These numbers have to do with our historical numbers. We don't think that 2014 will be a worst year than the previous years.

Despite the results of Q4 2013, the adjusted EBITDA in 2013 was 218 million. And even with these characteristics, this was a very reasonable year. And we don't think that in 2014, we're going to see something very different from that. We see the first quarter as a very good quarter in relative terms.

I would also like to highlight that at the end of last year, we restructured a large portion of our debt and we were able to lengthen the term and also to allocate in such a way that the area of recurring income, which demands more CapEx has the corresponding amount of debt. So, that is not under holding, but under the Company. And this also gives us a

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more accurate relationship in terms of expenses and taxes. This adjustment, this restructuring of the debt brings lots of advantages in terms of cash generation in the next few years.

Also, CETESB issued the installation license for our Executive Airport Catarina and is of extremely important saying that this license that allows us to start the works in the Catarina Executive Airport. At JHSF, we believe in projects that are complex and that also have a reasonable size; many of our developments are marked by this complexity. And therefore, we have a lot of work to do prior to the beginning of the works. And this is still in all of our major projects. At the same time, once we start the works, the profitability of these projects are very significant. We have two projects at this stage: one is the airport and the other one is the expansion of Cidade Jardim, which includes also Reserva I and Reserva II, these two plots. We are at a pre-operational phase. We have incurred in relevant cost and this will be seen in the next few years.

These were the highlights. And moving on to the figures, in the recurring income division, the gross revenue was 117 million. We used retail under these areas same-store retail business is linked to the shopping malls and this grew margins up and grow results up. We also seen improved profitability of this operation and also certain properties under this division were adjusted to fair value. They were mark-to-market as was the Company's plan. These properties were nearing completion, and therefore, we tried to reflect the value in a better manner in our balance sheet.

Also under the recurring division, please note that we have brought all the properties to fair value or rather some of the properties to fair values. And speaking of retail, the gross revenue in the year grew 1% relative to 2012. In Q4, the performance was worse than in 2012. But internally, we believe that this has to do with the supply of merchandise.

We had less merchandise available for sale than in 2012. And from our point of view, this was the main factor that accounts for a smaller revenue. Also, retail is seasonal not only because of market, but also because you might have more or less merchandise quarter-on-quarter.

Also, in this segment, I would like to highlight the joint venture with Hermes International. They were not partners in the operation in Brazil, but now, they are partners of our operation. I think this is good for the whole operation. And together with that, we have agreed to enlarge the store in Cidade Jardim. The future store will be twice as large as the current store.

So, in addition to increasing our share in retail, we will also seek greater productivity since the Hermes shop has very good sales per square meter and pays a very high rent. So, the possibility of enlarging the Hermes shop will further increase our profitability and revenue.

In the recurring area, in the recurring division, recurring income division, as I said, we are thinking of expanding the projects on Reserva I and Reserva I. But, as what said in the release, the pipeline of projects, in addition to these, these projects are feasible from the point of view of the land and the licenses in some places. We have investments for

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Cidade Jardim shop for the expansion of Metro Tucuruvi shopping mall and for Shopping Cidade Jardim to expansion forecasts. And we think that in the recurring income division, the results will be based on the construction of a new project, shop, but also the other projects which burn CapEx and take our revenue to 400 million based on the expansion of existing projects. This gives us greater visibility in terms of the performance of this investment.

Our estimates for the return of each projects are there, but our internal rate of return, which includes the invested value as compared with the revenue of this project may sustained at this internal rate of returns are comfortable and above the cost of capital today. We believe that investment in these expansions are investments that add a lot of value to the Company. Just to give idea, we are going to invest between -- our investments will have a return rates between 15% and 20% actual rates depending on the projects.

Also, it is important to highlight that the New York building is under the recurring income decision. We received the approval of the Land Mark department, the department that regulates new buildings close to the Central Park. We have invested BRL19 million. The Company believed that it was important to make this investment and with the building as it is without renovation, to improve it, the building is valued at BRL200 million. Therefore, the business outlook for this enterprise is very positive. We were able to buy the building at a different scenario relative to today. And this building has already appreciated, which is very good for the Company. We made the best and the best has paid off so far.

Moving on to the real estate development business. I would like to talk about the next project. We will continue to focus on the high income segments. We've believe that this segment still has opportunities that can be tapped. Our team is very focused on that. We were able to bring in some new projects and we believe some others can become part of the Company's pipeline.

It's our understanding that there are good quality projects. And if we work with these clients, that we are used to, we don't think demand should be a problem. We don't think that we should change the strategy for this year. Our vision is exactly the opposite. We have to execute projects with high-quality, we have to focus on cost, and we believe that this is the correct strategic vision for the Company.

In the hotel segment, just very briefly, I would say that this segment performed very well with an 8% growth relative to 2012. And we saw an improvement in terms of margin, EBITDA margin in Q4. And in 2013, the EBITDA margin was more or less the same as in 2012 and (inaudible) demand is consistent. This is a World Cup year and this will have a positive impact on the hotel segment, especially in Rio, but also I think, we're going to see that in Sao Paulo as well.

And in terms of new businesses for the hotel segment, we want to continue to focus on the high income segment. We have a contract for an operation in Belo Horizonte, the Jardim is being built. It is expected to open at a convenient state. Belo Horizonte is a city where we have been wanting to have a project for some time. That's not easy to make

any project viable, because it's a very densely populated and very densely built city, but the team was able to address this in a very good manner and we have signed the contract for an operation in Belo Horizonte. It is a contract with a managing company. And from the point of view of the profitability and the rate of return, these are very good. This company is a services company and not an investment company. And these deals are in line with this strategy.

And to give you a little bit more on the figures, we are very excited. We believe that 2014 will be a year where some parts of our strategy will further consolidate. We're going to open major project in the recurring income division. In addition to the opening of this new project, we're also going to have more visibility about these two projects, the Reserva I, Reserva II and Aeroporto Catarina, the executive airport. And we understand the relevance of this project and we want to have greater visibility on them.

When we work with large projects, the mission is not very easy, because we have to do things in the right way and communicate people as we can. We believe that 2014 is a very important year in terms of allowing us to have better visibility about the potential of these projects to yield results.

From the point of view of investments, we have a pipeline of receivables, which is very comfortable and we have a portfolio of performed receivables, which is very large, some BRL700 million. These receivables make us feel comfortable in terms of our debt. The maturities had been lengthened, because of the restructuring that we conducted in Q4, 2013. And of course, receivables do not include sales of our development business, which are still happening. The Company is well positioned today with debt and also to make the investments required to implement the projects we have in our pipeline of recurring income projects.

This is what I had to say. I would like to thank you all very much again for being today with us. And we now begin the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions). Our first question comes from Gustavo Cambauva from BTG Pactual.

### Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good afternoon. I have two questions. The first one has to do with Horto Bela Vista. Could you give us a little bit more color about this large delivery in the last few months, what about the transfer of balance to banks, do you see any difficulties when you have to transfer them to banks? And, what about the sale of the inventories, what about the sale of the supply rate (inaudible)?

And then, relative to the leverage, you have already said a bit about that, but what is your vision going forward? You have a lot of receivables for the next few months, but you also have a huge amount of CapEx for 2014. Do you think you have reached the peak in terms of leverage, should this increase during 2014, then decrease, but what is the peak in terms of leverage?

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

As regard to Bela Vista, I think the transfer to banks are happening. We have received the permit for all the projects. The bureaucracy is quite complicated in either permits and then you have to register the processes. But, the most important thing is that these transfers, we have a high degree of security that this transfers will happen. The client base of the sales relative to the value of the apartments in the market is a comfortable one and we see that in projects like this, unlike other JHSF projects in the high income projects, you don't have to transfer them to banks, because people pay while the buildings are being built.

But, in Bela Vista, when you compare the price of the investments and the market price, the transfers happened very fast. This was a difficult project, especially when we were heading towards the end, because we focus on quality. It is our strategy to not give up on quality. It is not a good thing to make adjustments in the cost. But, on the other hand, we must deserve the quality of our products and the market in Salvador is a market where costs grew at a faster pace than grew more than the average in Brazil. And we see the impacts of that and we are dealing with those impacts in a strategic way. But, as regards the transfer to banks, this has not been a concern for us. We have begun the transfers. And I think the pace is good.

As regard to leverage, this is our vision. We have performed receivables, which make us feel comfortable to have a debt that is slightly higher and thus regards mean investments. We have planned new investments with, bear in mind, the pipeline of sales also. Obviously, we monitor all of that. If you ask me, is that going to be a slight increase, well, of course, to have a pipeline for recurring income without dilution of the shareholders and this has always been an assumption. This is then, maybe with a slightly higher leverage, but in the Company, in many years, we've got used to operating in these two areas, the recurring income area, which requires a lot of CapEx and the real estate development area, we generate cash.

The important thing is that we monitor that from a very close range, we monitor that very carefully, and we don't see any threat in the cash generation business, which would prompt us to propose a reduction of investments on the other side. We intend to not drive leverage up, that's from a structural point of view. But, since we measure that quarter-on-quarter, there might be a variation upwards or downwards. The transfer to banks, the transfer of the clients balance to bank will allow us to reduce the debt a little. This will allow us to reduce the net debt.

#### **Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Thank you very much.

## Operator

Our next question comes from Mr. Alan Nicola from Bradesco.

### Q - Alan Nicola {BIO 18857961 <GO>}

Good afternoon. I have two questions. The first one has to do with the plan for Ponta Negra. Only -- the lease area is below 90% and then if you could give us some more color about the airport, is there any embargo, what is the horizon for this project?

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

So, as regards to Ponta Negra, we are working hard and just has happened in Salvador, we know that new shopping malls, they have ramp up period. We opened Ponta Negras very well with very strong results and then there is an accommodation of all that.

And from a strategic point of view, what we feel is that, this little lacking is being addressed. The market of Manaus is less comparative than Salvador. Our challenge in Salvador was may be bigger than the challenge we have to address in Manaus. And even in Salvador, we were able to perform well. The shopping mall grew very well and were able to bring major stores as anchored stores to the shopping mall.

In Manaus, we are heading in the same direction. The Ponta Negra shopping mall in Manaus has the best mix in the city, some of them are unique. And it's something that we monitor every day. The team is very engaged, it's very structured and it's engaged in this mission. It's not something that is of concern to us.

As regards the Airport, technically, the embargo has been lifted. There was an injunction last year, which determined the embargo until the installation licenses were issued. They have been issue and the understanding of our legal department is that the construction works can start.

Just out of caution, we began a process to talk with the judiciary bench about this just to have a formal release. There was some issues with the jurisdiction, whether Sao Paulo or (inaudible) and this delays the notices. But, there is no technical or legal hurdle in sentiments for us to execute the works at the airport.

JHSF has been working on the funding. We have always said that the Company should have partnered minority shareholders in this project. This is almost over. And I think that the sequence of events for that enterprise is well planned and we should begin build. And we should begin to build and we should finish the funding structuring for such a large project.

## Operator

Our next question comes from Mr. David Lawant from Itau BBA.

## Q - David Lawant {BIO 16370172 <GO>}

Good afternoon to all. I have two questions. The first one is about the development business. Can you give us some more color about what you expect in terms of the impact in the gross margins in the development business in 2014? Are you going to go back to the levels of margins that we saw, like, close to 50% or even slightly above that? Do you expect that will happen in 2014?

And the second question has to do with recurring income. In the release, on page eight, you show the recurring ROI of the portfolio and as regards the operations you have reviewed figures upwards, especially for Cidade Jardim and Tucuruvi and Ponta Negra and slightly downward for Bela Vista. Could you give us some more color about that; what happened, what was relevant that made you review this?

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

In the development business, the theory is that projects have NAVs and greater profitability. In most cases, there is greater NAV and profitability, the Boa Vista, for example, has a very large margin and there are no relevant works being conducted. So, the level of risk in terms of budgets overrun is not significant. This positive data were contaminated by the increased cost in Salvador and also the guaranteed rent in Cidade Jardim.

For corporate, there is a sequence for these events to end, the covenant. All the malls is now leased, and in the case of Salvador, the works are nearing completion. And we don't think that -- we think that the pace is going to improve, improve substantially to reach the same level of the good month of last year.

And as regards to the new project, in the development business, we went 30% of margin; and in land division, the margin higher. The guidance for potential sales value is not very important, the most important part of the guidance is to try to maintain a 180 million or 200 million in the development business. This will resume naturally. And unfortunately, small setbacks happen, but the Company won't lose its strategic direction and want sales to do what is right.

As regards to shopping malls, they are performing better. Cidade Jardim grew more in terms of revenue than our forecast. It had a revenue of 75,400,000. In 2014, we have more productive areas and more gross leasable areas. And there was an increase in the revenue.

As regards the Bela Vista mall, the revenue has reduced because of the rents. At Tucuruvi, the performances is better. We have (inaudible) kiosks and rents higher than expected. And as regards to Ponta Negra, the same thing. We have to continue to work, because making projects operational is not easy. I mean, we have team that includes one Director that deals with performance and another Director deals with the implementation of the project. We have to work in both fronts. We have to make operational those projects that are being built and we have to improve the performance of the built projects where possible.



## Operator

(Operator Instructions). The Q&A session is now closed. I would like to turn the conference over to Mr. Auriemo Neto for his final remarks.

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

I would like to thank you all for participating. And I would like to make our team available should you have any questions when you do your analysis. Thank you very much.

## Operator

JHSF Participacoes' conference call is now ended. Thank you very much for participating. And have a good afternoon.

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