

Q3 2010 Earnings Call

Company Participants

- José Auriemo Neto, Chief Executive Officer

Other Participants

- Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And welcome to the Earnings Release of Q3 2010 of JHSF.

Today with us are Mr. José Auriemo Neto, CEO of the company; Mr. Eduardo Camara, Executive Vice President and Investor Relations Director; Mr. Gabriel Ribeiro, CFO and Mr. Marcio Fenelon, Investor Relations Manager.

We inform you that this event is being recorded and that participants will be connected in listen-only mode during the company's presentation. We will then start the Q&A session when you'll receive further instructions. [Operator Instructions]. This event is also being transmitted simultaneously over the Internet via webcast and may be accessed at www.jhsf.com.br/ri.

The replay of this event will be available after it's ended. Participants at the webcast may register questions to be answered during the Q&A session. The presentation slides are also available on the Internet for download from <http://www.jhsf.com.br/ri>.

Before proceeding, we would like to clarify that any statement that may be made during this conference call relative to the outlook of the business of the company, projections and operational and financial targets are based on the belief and assumptions of the Executive Committee of the JHSF and on information currently available to the company. These forward-looking statements are not guarantees of performance and involve risks, uncertainties and assumptions as they refer to future events which depend on circumstances that may or may not occur.

Investors should understand that economic conditions, industry conditions and other operating factors may affect the future results of the company and may conduct to results that differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor to Mr. Jose Auriemo Neto, CEO.

José Auriemo Neto

Good afternoon. And welcome to the earnings release of Q3 2010 of JHSF.

I will start on slide three. And I would like to highlight some of Q3's major occurrences, beginning with the sale of the Metropolitan and Platinum towers. We created with Hedging-Griffo an investment real estate fund, Hedging-Griffo and JHSF. It is a real estate fund. We concluded the operation in Q3 and it raised 72 million approximately in terms of gross profit.

Also since we wanted to improve our partnership with real estate projects we are also working with Votorantim and Banco do Brasil to design a real estate fund for one of the towers of the Parque Cidade Jardim, the Continental Tower. And we had sold a portion of this to the pension fund of Fondazione Valore totte.

Also in this quarter, we distributed interest on equity capital in the amount of 48 million. And this underscores our vision that the company should have the capacity to grow, but also to distribute income and interest to its shareholders. This has been our philosophy and a vision that we think is of utmost importance.

Also in this quarter we filed the request to issue our third issue of debentures. We completed the admission of 250 million, the second debenture admission and we have issued the request to issue the third debenture series to fund our longer term project.

We also had the opportunity to acquire a new area adjacent to Fazenda Boa Vista, another 1.8 million square meters for a very attractive price as compared with the prices we have been able to established for the enterprise today and with the structure that has been also implemented so far.

Also Hotel Fasano was elected the 14th best hotel worldwide by Condé Nast Traveler and the whole team of the Hotel is very proud of this achievement.

And now talking about the challenges of the year we have some launches scheduled for Q4. JHSF is very much gearing efforts to these launches, some of them are underway already and I would like to highlight Fazenda Boa Vista. We are launching a \$300 million phase. Parque Ponta Negra was launched last weekend. Also Bela Vista will have another phase launched in the next quarter. And Vitra, a project by Daniel Libeskind, the internationally known, based in New York and he designed a project in Itaim for R\$110 million.

So our vision for Q4 in terms of performance, in term of the sales of this project that are being launched is very positive. Parts of them have been launched already. And we have been performing inline with the expectation, which is very important for us because we want to complete the year within the projections and within the guidance that we gave to the market.

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Now moving on to page four, we have the sales performance in Q3. And if we include the creation of our real estate funds, sales achieved R\$296 million and the accrued sales for the year was 624 million. We have expressive growth relative to last year. The projects launched have been performing very well in terms of sales; Fazenda Boa Vista, the first and second phase. We are now launching Phase 3. Parque Cidade Jardim has been performing very well from the point of view of sales; Cidade Jardim Corporate Center as well and also Bela Vista. We have sold 73% in Praça Vila Nova also, an important mark.

We sold a 100% of the project to 123 million and this enabled us to launch Vitra. Vitra is a project. It is building with 613 square meters of private area. And in Vila Nova as well we performed very well in 450 and 550 square meters of area.

In the Lapin building also we achieved 81% in terms of sales. So our vision for the market is that we have been able to perform very well in our projects.

In terms of our receivables and inventory at market value we reached 1,575 million and the free cash flow of this project, including also the investment that is scheduled, stands at 870 million without considering the project that we are going to launch in Q4.

On page seven, we show the changes in gross revenue the accumulated for the quarter and the accumulated for the nine months of the year. There has been a strong growth relative to last year and the same growth for net income in Q3, R\$134 million. And in the accumulated for the nine months of 2010, R\$224 million in gross income.

As regard to our EBITDA, we achieved R\$111 million including all of our operations and the accumulated for nine months R\$160 million.

In terms of net income, it was in the region of R\$100 million in Q3 considering -- including the creation of the real estate fund and the accumulated for the year, R\$125 million, very significant growth relative to last year.

In terms of cash and equivalents, our cash position grew substantially in the quarter from R\$224 million to R\$680 million pro forma including 158 million, which referred to the creation of the real estate fund. And we have been underscoring that we have been pursuing growth, company's growth by taking opportunity of market opportunities that have a reason in the areas where we operate. But we also think it is important to maintain a conservative attitude in terms of the leverage of our company.

So when we talk about cash and net debt, in the end of Q3, our cash position is positive and I believe this reflects a careful policy that we have been applying relative to leverage and indebtedness which has been a highlight for us.

On page 13, as you can see, we have the breakdown of our debt profile. 76% of our debt matures as of 2012. And on page 14, we have our project shopping mall and this accounts for a major part of the investments we are going to make in the next few years.

We have three shopping malls being built at Tucuruvi, Bela Vista and shopping Ponta Negra in Manaus. The three projects will need a major investment. This investment has been already included in our future figures and I also think that it reflects our policy. So when we grow in real estate development we also try to grow in shopping malls so that our portfolio remains balanced in the way that we have revenue from real estate development, but we also have projects that generate income.

We have these three projects. Our performance in terms of the lease of these areas is very good. They all have anchor stores and the works are underway to complete this project within schedule.

Page 18, I would like to highlight the launching of Fazenda Boa Vista, the next phase of Fazenda Boa Vista. And we saw that it was a good opportunity to acquire more area adjacent to the project. There was an expected appreciation in the prices per square meter of the products we sell. The appreciation was more than 400%. So we jumped from R\$150 per square meter to R\$750 square meter.

We also have important a land bank, and our expectation is that this market will experience demand in the next years and the project also has received major investments to add differentiating features, to golf courses, an equestrian center. The Hotel Fasano is going to open in the first half of next year. So our expectation is that there is going to be constant demand for these products in the next few years. And we are planning this type of development, which includes investments in land, in tracks of land and also real estate development.

And in terms of highlights and comments, this is what I had to say. I would now like to make myself and the whole team available, should you need any clarifications. We will now begin the Q&A session.

Questions And Answers

Operator

[Operator instructions]. Our first question going to come from Elisa Cardozo from Phoenix Investments.

Q - Analyst

Good afternoon. I would like to know what your intention was when you acquired an additional land bank for Fazenda Boa Vista? Do you believe there is demand that justifies this acquisition?

A - José Auriemo Neto

We believe that demand remains strong. The Boa Vista history corroborates that. R\$700 million have been in sold 2.5 years in the Boa Vista enterprise and I believe that our portfolio has always included projects with different characteristics.

We may have shorter term projects such as Benedito Lapin, Vitra, Praca Vila Nova, these are smaller products and also longer term projects, where part of our revenue comes from the appreciation of the land per square meter.

So thinking that this project will be sold over some years going forward, we believe it is a very safe land bank and very important for the company, especially considering the investments that have been made and the appreciation in the square meter that we have been able to see.

Q - Analyst

Thank you.

A - José Auriemo Neto

[Operator instructions]. There are no further questions. We therefore end the Q&A session. I would like to turn over to Mr. Jose Auriemo Neto for his final remarks.

I would like to thank you all for participating and should you have any questions or require further clarifications we remain available to address any question you might have. Thank you very much.

Operator

JHSF Participacoes conference call is now closed. We would like to thank you all for participating and have a nice afternoon.

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