

Q3 2017 Earnings Call

Company Participants

- Eduardo Silveira Camara, Board Member & Chief Executive Officer
- Thiago Alonso de Oliveira, Board Member, Chief Financial Officer & Investor Relations Officer

Other Participants

- André Mazini, Analyst
- Luiz Mauricio Garcia, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to JHSF Conference Call to discuss the results concerning the third quarter of 2017. Here with us, we have Mr. Eduardo Camara, CEO; and Mr. Thiago Oliveira, IRO and CFO.

This presentation will be recorded and all participants be connected in listen-only mode during the company's remarks. After that, we will start the Q&A session when further instructions will be provided. This event is also being simultaneously broadcast via webcast at the company's IR website, [ri.jhsf.com.br](http://ir.jhsf.com.br) (sic) [<http://ir.jhsf.com.br>] (00:01:01) and also by the MZiQ platform or the respective slide pack available for download.

Before moving on, I would like to state that forward-looking statements made during this call concerning the company's business outlook and also concerning the company's financial and operational forecast are based on the company's beliefs and assumptions, and also all on information currently available in the market. They involve risks and assumptions because they refer to future events, which depend on circumstances that may or may not materialize. Changes in macroeconomic policy might lead changes in the future, performance of the company, lead to the results that will differ from this statement here.

I would like to give the floor over to Mr. Camara, who will start the presentation. Please, Mr. Camara, you have the floor. You may carry on.

Eduardo Silveira Camara {BIO 2074637 <GO>}

Good morning, everyone, and thank you all for participating in our conference call today. I'd like to start by commenting on our satisfaction with the results posted in this quarter in special to recurring income, our main focus, where all indicators showed positive results,

not only positive, but also relevant and also, our activity concerning Hotels and Restaurants. São Paulo is doing really well.

But the consolidated numbers suffered somewhat, if you will, because of underperformance in real that came as a consequence of the Olympic Games last year. When we compare quarter-on-quarter, it's difficult to compare anything with results posted on a year with the Olympics, right?

And for the financial results, they were also quite relevant and positive for the company, and they reflect our efforts to deleverage the company. And macroeconomically speaking, they reflect (00:03:16) costs. So, for us to have more details, I'll give the floor over to Thiago, who will comment on numbers more specifically.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon, everyone. Thank you. And we're now on page 3 of our slide deck. I'll go briefly over some of the highlights of the quarter.

We see a growth in retailer sales of 10.4%, totaling BRL 475 million in the quarter. That's a very good number, with a highlight for the Ponta Negra Mall in Manaus where we saw sales grow 33%, a very significant sales hike. As for operating indicators, all indicators show positive evolution and we'll see that in a moment.

Occupancy rate, we also improved 120 basis points, which almost 24% of occupancy rate and occupancy cost, we manage to reduce to the lowest level in the past three years. Since 2015, we had not reached such a low level of occupancy cost. So, as Eduardo mentioned, this came from a concerted effort.

We consolidate the numbers for the quarter. When we compare them to the same period last year, we talk about different basis. So, we are including some pro forma data so that you have a better understanding of the numbers, not the business as a whole.

So, for gross profit/operating income, also showing improvement, and the consolidated financial result at minus 60% when compared to the same period of last year. So that shows this quarter was a quarter of evolution for the company.

Moving on to slide number 4. We talk a bit about our performance in the malls front. Our sales are close to BRL 475 million. Our gross revenue grew 1.2%. Occupancy cost, as I said, dropped and occupancy rate also reaching something close to 94% on the top right-hand side of the slide.

So, what we see here are very strong robust numbers and we cannot forget that in the third quarter of last year, we had very, very strong numbers for same-store rents, same-store sales and so on, which also created, as it was mentioned before, a very strong robust basis for us to compare. So, overall, the performance has proven to be quite satisfactory.

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I invite you also now to move to page 5. As it was mentioned, the performance in São Paulo and Fazenda Boa Vista in particular were quite positive, 6% above last year. And in Rio, we see a downtrend coming from a combination as it was of lower demand and, of course, the Rio Games. Those two atypical situations here last year also helped us understand the consolidated results in the Restaurant area, where we have a number of Couverts, which was 8.6% in São Paulo.

So the number's up because of São Paulo and at the same in Rio dropped something close to 5%. And on Average Couvert, in the breakdown, we see an improvement in Restaurants where the Average Couvert is slightly lower. And we see a downtrend where we have higher prices. So one sort of offsets the other, leading to that 5% downtrend we see on the right-hand side.

On page number 6, we have a summary of our activities in development in the third quarter as we had in the first quarter. We had an effect coming from cancelation especially for Fazenda Boa Vista. We're talking about three clients who have been at default and we chose not to go to court. And when we went to court, the decision was unfavorable to us, but we needed to accept one of the rulings and that's why this number showed the cancelations then.

On the next page, we analyzed the performance of the holding in the quarter. The result of the company's holding was impacted by BRL 13.2 million by no recurring events, BRL 4.5 million refer to losses coming from the sales of malls. We expect to see this happening again in the fourth quarter of this year for the last time.

And in this quarter, we also acknowledged BRL 8.7 million in non-cash, non-recurring expenses with accounting for provisions for losses related to assets sold by JHSF last year in 2016. We expect to recover, but those provisions are in line with the company's policies. But once again, non-cash and non-recurring.

Looking forward, we see a holding with about 25% (00:10:05) personnel, but not with the one that was recorded now in the third quarter.

And on page 8, as a summary, gross revenue growing 3%, 54% in drop in financial result on the top left-hand side. And the net income improving or going up by 45%.

With that, I would like you to move to page number 9, where we have a snapshot of our debt indicators. A highlight was a drop in our debt and natural effect coming from the evolution and duration. So we are, in other words, maturing our debt and we are working hard to extend that. Whenever we have more details, we'll disclose it. But as a whole, we see a situation where we have a gross debt situation which is quite stable.

With that, I close my part of the presentation and we can start with the Q&A session, if you may.

Q&A

Operator

Thank you. We'll now start the Q&A session. Our first question comes from André Mazini from Bradesco BBI. André, we cannot hear you. Mr. André, you may carry on with your question, please. We still have no sounds from André here. Our next question comes from Luiz Garcia from Bradesco.

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

Good afternoon. I have two questions. Number one, when you mentioned occupancy costs, you had a piece of good news, right, concerning the growth in sales. So, how do you see the possibility of transforming that low occupancy rate in an increase in lease values in the future

If we could perhaps break it down in two different aspects. Number one, discounts. What would be your discount level? What are you doing now and as a percentage of the gross revenue, and when do you think that could go further down and about readjustments in malls where you have lower occupancy rates such as Cidade Jardim? So what is, in terms of possibility, on that front leasing amounts?

Number two, on the development front, you mentioned that your main asset today in terms of inventory is Fazenda Boa Vista. So, what would be possible to do there in terms of an amendment in contracts, anything that could avoid further cancelations that could actually be done into cash generation for the company? Thank you.

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

Thank you, Luiz. This is Thiago speaking. I'll start with the occupancy rate according to your question number one. As a whole, we are very picky, very selective in terms of granting discounts.

Last year, we started a process, a very important process of bringing temporary discounts down. I'm trying to remember, if I'm not wrong, we're talking about something like 24% or 25% of those discounts had already been decreased, which led our lease indicators up in the third and fourth quarters last year. So, as I said, we are very selective in terms of granting new discounts. So we analyze it on a case-by-case basis. We have no power - across-the-board policy in place for that. We try to analyze and understand client situations on a case-by-case basis.

Along with that, we are now working on next year's budget and we see an opportunity in the condominium market. So that combination, the condominium fee plus the lease is what makes sales more difficult. So that will also involve our discount policy, right? This would, of course, depend on some swaps or exchange or replacement of some retailers to be able to work around that. So, that's a topic that we are keeping a close eye on. It's important to say that we see opportunities going forward on that front.

Today, we have a situation, which is quite interesting, where we have two shopping malls which are very important in terms of GLA. Cidade Jardim is one, which on average has a -

which you see have a lower occupancy rate because of that construction model that they have. And also, this concern that we have when we start implementing a project, of course, we're going to be using that throughout our other projects.

Your second question was about development. As I said before, we are not very happy with the way cancellations have been treated by the courts. What we can do is to keep on fighting for it. It is our understanding that this development is finished. So when we sell land or homes, it's our understanding that there is a definite sale (00:18:16), but what happened was that - of the cancellations that we posted this quarter, clients financed their purchases with us.

So, we tried to sign an agreement to avoid going to court. But in one of the cases, there was an unfavorable decision coming from the court. We had no choice. Of course, that hurts our numbers a little bit, but as a good portion of those payments, which were due, were not made. Likewise, the amount we have to reimburse is relatively low. In other cases, we did not return anything. We paid a compensation between the amounts at play.

We do not consider it a loss; it's an inventory reconfiguration, if you will. We do believe we have a good level in terms of demand, still attractive. So, we do not see that as a recurring effect, those cancellations.

Operator

Our next question comes from Mr. Mazini from Bradesco.

Q - André Mazini

Hi, Eduardo. Thank you. My question is about the airport. I read on the newspaper last week that the Guarulhos Airport operator was planning on investing BRL 30 million to build a dedicated terminal for executive aviation. Is that a new piece of news? Were you monitoring that? Do you see that as an important competitor emerging, or do you still consider yourself as a distinguished high-end type of service? So, how do you see your airport project vis-à-vis the announcement made by GRU, the Guarulhos Airport operator?

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

Hi, André. This is Thiago. Thank you for the question. I think this is good news, right? It shows that there is demand for the type of service we want to offer now in terms of executive aviation at the Catarina Airport. So, this infrastructure dedicated to executive aviation is without a doubt a very real phenomenon that we see emerge in large urban centers such as Paris, New York, London. That is a reality in those cities, and we see that also happening here in Brazil. So, our business partner there supply - what we're doing here or we see happening at Guarulhos reaffirms that there is demand and that it make sense to have an airport dedicated to executive aviation.

Our business model is slightly different from the one proposed by the Guarulhos operator. We're thinking about a fleet which will be based on our airport. And we're not

talking only about a short or very short temporary stay at the airport; we're talking about hangars to house a fleet in the longer term.

The bottom line is that we are very, very comfortable in terms of possible demands for executive aviation Brazil. So, we intend to carry on with the works and we expect to open this new airport next year, 2018.

Q - André Mazini

Okay. Thank you, Thiago.

Operator

We now close the Q&A session. I now give the floor back over to Mr. Camara for his final remarks.

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

Thank you again for participating in our conference call and as usual, the company, myself and our team, we remain available for questions or comments that you may have. Thank you. Have a nice day, everyone.

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