

## Q3 2015 Earnings Call

### Company Participants

- Eduardo S. Camara, Chief Executive Officer
- Thiago Alonso de Oliveira, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Daniel, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon. Welcome to the conference call of JHSF Participacoes to announce the results of the third quarter 2015. Today here with us we have Mr. Eduardo Camara, CEO; and Thiago Alonso de Oliveira, CFO and IRO. This presentation is being recorded, and all participants will be connected in listen-only mode during the Company's presentation. Then, we are going to start a questions-and-answers session, when further instructions will be provided. (Operator Instructions).

Before proceeding, we'd like to clarify that statements made during this conference call relative to JHSF's business prospects, operational and financial projections and goals are based on assumptions of the Company's management and are based on information currently available. They involve risks and uncertainties because they refer to future events and therefore depend on circumstances that may or may not occur. Changes in the macroeconomic policy or in the legislation and other operational factors may affect the future performance of JHSF and leads to results that will be materially different from those expressed in such forward-looking statements.

Now, I would like to turn this conference over to Mr. Eduardo Camara, who is going to start the presentation. Please, Mr. Camara, you may start.

#### **Eduardo S. Camara** {BIO 2074637 <GO>}

Good afternoon to everyone and thank you all very much. I am going to start on slide number 3 of our presentation. And the highlights of this quarter, the most important thing is the robust growth of our shopping mall area, very relevant growth in sales, SSS, SAS; and other opportunities that we can have that we are working strategically towards the end to increase revenue from rental and also same-store sales.

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In terms of operating expenses, we keep our focus on going and permanent efforts to cut expenses, which this quarter was about 8% to 9% -- BRL8.9 million or 24.9%. The adjusted EBITDA is also very significant with a growth of 14 percentage points, and we also opened the expansion of Catarina Fashion Outlet on its first anniversary and 100% leased. The consolidated result of the Company is practically maintenance of net revenue where the activity is of development, follow the strategic focus of many years is losing relevance in our consolidated numbers that led to a reduction in our revenues from our developments, and this was compensated by the growth of all other areas of our Company; shopping malls, and Fasano was the main contributor to this improvement.

The adjusted EBITDA, as I said shortly ago, had a relevant growth in margin, and the financial results suffering the impact of a high interest rate and especially in this quarter due to an increase in FX expenses that was very significant this quarter, thereby having an impact on net income as a consequence of these variables.

In terms of performance, specifically talking about shopping malls, the growth in sales that we saw is quite relevant and you can see on the slide in the numbers by historical series, the gross revenue is also presenting a similar growth. If we compare quarter-on-quarter, Shopping Bela Vista is quite important to highlight that over the past five quarters it has presented a two-digit growth, and this makes it very clear the way we adapted and developed it and the growth strategy for the shopping mall, not physical expansion but the expansion of its activities.

And in Manaus, it is a little -- what we are seeing there today is very much related to what we saw in Salvador. Manaus is going through changes, we are sophisticating the mix, at first it impacts, like a step back to take many steps forward. So this implies creating slightly higher vacancy and this vacancy is being replaced by stores that we find are more appropriate to our high income shopping mall, which is a demand in Manaus. And this is already having the first consequences because we have contracted operations and these new activities are going to start operating, and so soon as that happens, they will bring in good results.

So you are seeing that already and we have reasons to believe and to expect that what happened to Bela Vista over the past few years is what we are about to start seeing in Manaus in the near future. And the focus of the cost structure and the reduction of our occupancy cost is coming through and reflecting benefits to our store owners more profitable leases for the Company. And when I talk about the growth in Salvador and the transition that is going in Manaus, this is all very visible. In our rate of sales, there is a drop in recover growth and then we believe that this growth will become regular in future quarters.

On page 6, the slide showing the performance of hotels and restaurants. Under the Fasano brand, there are three important things here to highlight. If we compare hotel activities to the previous period, it still has the relevant impact of the World Cup; and obviously increased substantially the rate of occupancy and areas in that period. But anyhow, we have been focusing our work on synergy and on integrating the two activities in cost reduction and also on the pursuit of having better prices for the drop either [ph] in

number of couverts, which is compensated by the average price of covert or occupancy rate, which is compensated by average daily rate.

The next slide, I'm going to skip and will come back to it in a minute. The initiative and the focus of the Company to reduce and to expand debt is something that happens at the time when consolidating the growth of the past four years, which was very relevant.

In these three years and a half, we went from one to five shopping malls, and so we have increased also considerably GLA and this was a relevant growth. And today we have the focus on the consolidation of all the properties, we have a focus of discipline in investment and also a more judicial CapEx, so to speak, and we increased very much liquidity. So in May, we had a capital increase of BRL400 million, in September we had BRL300 million, without scheduled maturity where we packaged all the maturity for '15, '16 and '17, so that they would only mature after 2018, with 30 months of waiting period, of grace period.

So we are speeding [ph] up working capital monetization, we are seeking more efficiency, placing more focus on the reduction of receivables. We want also to issue bonds to -- of certificates of real estate receivables, we had received the proposal for selling international assets, something that really agrees with our strategy of optimizing our capital structure. They are assets that were purchased some time ago, at a very favorable time, which favors the -- or may provide relevant gains and will lead to significant valuation.

It was a very good decision, proposals with the value that are superior to the market values. And not just -- this would not only reduce debt, but it would also mean the inflow of new funds and would free the Company from additional future CapEx, particularly at a time when the macroeconomic scenario is changing and the international scenario would be in dollar.

So this is a transaction that is subject to the approval of the Board of Directors. This is going on. We have an issuance that has already been registered at CVM and we are trying to raise about BRL280 million with the time of 15 years.

I'm going to turn the conference over to Thiago Oliveira to give you more details about the capital structure.

**Thiago Alonso de Oliveira** {BIO 6637078 <GO>}

Thank you, Eduardo. I think it's very clear to everyone that the Company is implementing many actions aimed at improving its capital structure and this work that we started very intensely and Eduardo formalized with what he said so far.

And the table you see on page 7 of the presentation, it shows the numbers of the Company, with the possible sale of our foreign assets. So what you can see is that this transaction would provide the reduction of the net debt over EBITDA for the next 12 months from 5.6 to 5.1, which we find very appropriate and timely looking forward.

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It's not just the reduction of this indicator, but also the reduction of financial cost and also the exposure to the dollar, which now is going through a great volatility and that impacting the results, making them equally volatile, which is something that we try to avoid going forward.

What is not reflected in the bar chart here is the potential effect that this operation might bring that is registered at CVM, which is to make it possible for us, to enable for us many actions, including the reduction of the amounts to be amortized in 2016, 2017 and 2018, thereby extending the time the Company has to do that.

And once this operation becomes real, you will be seeing smaller bars especially in the first three years, indexer [ph] of this operation is in line with the indexes that correct a lease contract that the Company has with the shopping malls. So we wouldn't have a behavior of the cost of debt that would be more in line with the revenue index. And then we would be taking an important step in terms of evolution of the capital structure. I think, and this is basically what we wanted to highlight.

Now going more into numbers of this potential sale of assets. We are talking here about approximately BRL800 million, and would need the elimination of BRL670 million in debt plus a cash payment. And these funds, considering the priorities that the management has now, would come along with cash reserves that we have today and they would all be used for the investment land in the two properties in the United States, especially that would make it possible to reduce the gross debt of the Company.

The numbers we are presenting are related to the net debt. So what you see here is to work in the future with a cash position that's slightly smaller than the current one, but at a level of CapEx with an even greater reduction than the cash reduction that we may have.

With this, we end our presentation, and now we are open for questions-and-answers.

## Questions And Answers

### Operator

We are now going to start our questions-and-answers session. (Operator Instructions) Our first question comes from Mr. Daniel from Banco do Brasil. Please, Mr. Daniel?

### Q - Daniel {BIO 1829691 <GO>}

Thank you for the presentation. I have two questions to ask. They are more related to operational aspect. The first one is related to the mall. And what lies behind this slight variation in the occupancy rate of some malls such as for example, (inaudible). I saw there was a slight reduction in occupancy rate.

And the second question regards the sales performance of your developments. Where did you have the most difficulty thinking of this, as compared to the second quarter?

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**A - Eduardo S. Camara** {BIO 2074637 <GO>}

Daniel, the changes in occupancy, there were small changes that are part of -- normally for the shopping mall. So this is a natural movement in terms of the changing some operations, some store owners go and come for different reasons, and then there could be very small things. So this is business as usual part of its normal life and we -- it's already overcome.

The (inaudible) numbers showed different snapshots from September 30 much more than a featured of the business and this is a variation of 0.8 [ph] up when we compare the occupancy to the previous quarter.

After developments, it's important to emphasize two things. The first one; the focus of the Company is shifting to recurring sales rather than to grow the activity of developments, as we have been saying for four years.

And specifically, the project mix, the second quarter, had sales that were significantly higher in Boa Vista with more attractive terms to our customers because of its features. And in the future quarters, we are working on the launch of other products more in line with the ones for which there was high demand.

**Q - Daniel** {BIO 1829691 <GO>}

Thank you very much.

**Operator**

Our next question comes from (inaudible). Please?

**Q - Unidentified Participant**

Good afternoon, Eduardo and Thiago.

**A - Eduardo S. Camara** {BIO 2074637 <GO>}

Hello, Claudio. Good afternoon.

**Q - Unidentified Participant**

I would like to hear more on the airport project. How is it evolving? What is your CapEx needs for 2016, specifically?

**A - Eduardo S. Camara** {BIO 2074637 <GO>}

Claudio, the airport is well advanced. We are working within the schedule for -- to structure the funding and to finish the work. Our intention is that in 2016, we open it, the CapEx that is under our responsibility, involving the Company's cash is about BRL8 million - - BRL80 million.

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The remaining investments would be more like 100, 120, would be more accurate estimate right now would be more leaning towards 120 and long-term loans additionally would represent one-third of these investments and two-thirds with our own funds. Please go ahead.

### **Q - Unidentified Participant**

What about the possibility of having a strategic partner for the airport, specifically?

### **A - Eduardo S. Camara {BIO 2074637 <GO>}**

Well, our financial partner -- financial partners, well, we are still negotiating with strategic partners, we are not thinking about that today. There is still discussions, still considering a financial partner.

### **Q - Unidentified Participant**

Okay. May I ask another question?

### **A - Eduardo S. Camara {BIO 2074637 <GO>}**

Yes, please. Go ahead.

### **Q - Unidentified Participant**

What about the purchase of assets overseas? And I would like to clarify, do you have -- do you know when this operation will be ready to be approved by your Board?

### **A - Eduardo S. Camara {BIO 2074637 <GO>}**

No, Claudio. I don't want to -- I would not like to commit to a timeline. We are working on other details that this operation requires. We understand its strategic convenience. We know what it represents to the Company. But we are working diligently in a review and assessment and in preparing all the documents for the Board of Directors to analyze the proposal.

When I talk about its relevance, what I mean that it will reduce indebtedness, we'll bring in new funds, we release additional CapEx that will no longer has to be done by JHSF. So all of this is very relevant. But the home work of preparation appropriately to be presented to the Board of Directors. This is all being done.

### **Operator**

(Operator Instructions) We are now closing our questions-and-answers session. I would like to turn the floor to Mr. Eduardo Camara for his closing remarks.

### **A - Eduardo S. Camara {BIO 2074637 <GO>}**

I thank you all for your presence and participation. I hope we were clear and answered all the questions you had. And as usual, we are available to everyone to answer your

questions. Thank you all very much and have a good afternoon.

## Operator

The conference call of JHSF Participacoes has now ended. We would like to thank you all for joining us and have a good afternoon.

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