

## Q1 2012 Earnings Call

### Company Participants

- Jose Auriemo Neto, CEO

### Other Participants

- Luiz Mauricio Garcia, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and welcome to JHSF conference call for the results of the First Quarter 2012. Present at the conference are Mr. Jose Auriemo Neto, CEO, Mr. Eduardo Camara, Executive Vice President and IR Officer, Gabriel Ribeiro [ph], CFO. And Mr. Marcio Fenelon, IR Manager.

We would like to inform you that this event is being recorded and that all participants are now connected in listen-only mode throughout the Company's presentation. After that, we shall begin a Q&A session, when further instructions will be provided. (Operator Instructions).

This event is also being broadcast simultaneously over the Internet. And it can be accessed at the address [www.jhsf.com.br/ri](http://www.jhsf.com.br/ri). A re-run of this event will be available right after its close. We'd like to remind you that participants by logging in to the website and ask questions, which will be answered during the Q&A session. The slides for this presentation will also be available over the Internet for download at [www.jhsf.com.br/ri](http://www.jhsf.com.br/ri).

Before proceeding, let me mention that forward-looking statements that might be made throughout this conference concerning the business outlook of the Company, projections. And financial and operational targets are based on beliefs and assumptions of the Company's management, as well as on information currently available for the Company. Forward-looking statements are no guarantee of performance, as they involve risks, uncertainties. And assumptions because they refer to future events, which may or may not materialize.

Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of the Company and lead to results, which will differ materially from those expressed in these forward-looking statements.

I would like now to turn the conference over to Mr. Jose Auriemo Neto, CEO. Please, Mr. Jose, you may carry on.

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

Good afternoon, to all. And thank you very much for attending this conference call today to discuss the earnings of the First Quarter of 2012. First of all, I would like to say that the quarter was more or less in line with our expectations. And in our areas of operation we were able to keep in line with the performances that we expected.

Just a brief comment before we talk about the major figures. We continue with the view that we have been disclosing in the last conference calls. And we want to maintain our real estate development area, focused on income generating -- on the higher-income bracket projects. We believe that this is a consistent market. And in terms of volumes and the new launches that we are proposing, we believe that it will continue to be possible to obtain good performance in that segment.

And as a highlight for the quarter, we launched a project, Residencial Cidade Jardim, which consists of apartments ranging between 600 to 700 square meters. And they were sold initially at BRL14,000 per square meter. That was the base price. And the project was very successful.

We have some projects on the way. And the sales performance has been within target. Also in the Fazenda Boa Vista project, Benedito Lapin, Vila Nova with a smaller level of sales means we have no inventory there anymore. And so on and so forth.

Our view is that in line with the guidance for BRL2 billion in the two-year term, we do have a challenge of some new launches by year end. But our view is that we have five or six projects to be launched. And we are very confident that we will continue to perform well in this segment, especially as we believe that the focus and the criterion that we use to select projects helped us when we have to ensure our performance.

And as we got the works, it's always a challenge to keep the construction works within budget. In the last three years we invested a lot in control infrastructure. And we feel that this structure, although it implies some overhead for the Company, slightly higher overhead, these controls that we have put in place have been helping us to ensure the execution of works and the performance of the construction works.

So, although this places great challenges, as you know, the construction segment in the country's very heated. So it's a challenge to keep works in budget. But we believe that we have been able to achieve that.

Terms of shopping malls and commercial properties, we have been focusing very much on developing the pipeline of these projects. We will open the shopping at Salvador -- the shopping mall at Salvador by the end of June and then comes the Tucuvi shopping mall. We also expanded the Cidade Jardim shopping mall. And then Manaus, Catarina. And we

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will continue to pursue the project to achieve the revenue of BRL200 million in 2013 and BRL400 million by 2015.

The Company is very mobilized to build these malls. The BRL400 million that remain in the pipeline are in those projects that we have identified and that are under way. They face challenges regarding execution, like all other projects, from the construction works and then to the lease spots. And we have been successful in leasing the areas.

I think the projects have performed very well, have had very good results. But we have some years ahead in which we have to put a lot of focus on this project so that they be implemented in the best possible way.

And now speaking about the results of the quarter, our growth was 6% in terms of net result relative to last year. On page three, you can see also the results in the next two years. And the Company's net income grew year-on-year. And the same goes for its EBITDA.

EBITDA in the First Quarter was slightly better than in the First Quarter of last year. And I believe that more important than the quarter is the growth in the last few years in terms of EBITDA, which shows that the Company has grown in a very healthy way in all of its lines of business.

As regards gross revenue, we grew 12% relative to Q1 2011. Our performance over the year also was very good. And we had BRL200 million of contracted sales in the First Quarter of 2012. These reflect the launch of these projects and also of the continued good performance of the projects we had launched already.

We have been able to maintain a comfortable cash position. And together with the cash position we always analyze the level of debt. I always like to highlight that in the last few years we have been able to grow the Company's revenue, the EBITDA of the Company, the net income. And we have maintained the level of activity in a very satisfactory level. Our policy in the last few years was to pay out dividends. We distributed 50% of the income generated, while maintaining a very conservative capital structure.

And the challenge in the next few years is to think in broader terms and to maintain a conservative profile of the Company while thinking in terms of the greater net debt because of the Company's investment in shopping malls and offices and office buildings, which allow us to have a recurring income and a recurring cash flow.

I would also like to say that we will see that in 2015, where proportionally this area of recurring income will grow more than the real estate development area. I have said sometimes that real estate development is an area where JHSF is not very comfortable in terms of increasing the number of launches.

We believe that if we maintain BRL1 billion in terms of launches that's a level that we feel comfortable with in terms of ensuring good margins, good quality. And productivity. And

therefore we choose to focus in the entire income segment, which is expected to expand.

We believe that the real estate development area of JHSF and the income business will have a higher contribution to our EBITDA. This is what can be seen on page 11, where we show the growth of the shopping mall and property area and also in terms of real estate development. If we maintain launches in the region of BRL1 billion with an organic growth. We believe that the revenue-generating area will be a lot greater than the real estate development area.

This is what our vision is for the future. And I would just like to make our team available to take any questions your might have.

## Questions And Answers

### Operator

Thank you, very much. We will now begin the Q-and-A session. (Operator Instructions). If you are watching the conference via webcast, click on Question to Speaker to forward your question to JHSF. We would like to request participants in the English room to ask your questions at once.

Our first question comes from Mr. Campao Uval [ph] from BTG Pactual.

### Q - Unidentified Participant

Good afternoon, all. I have two questions. The first one has to do with the Bela Vista shopping mall. There was an increase in CapEx relative to the budget for the shopping mall. And you were saying that it has been kind of difficult to maintain costs in line. Could you give us some more details about what has caused this change in the CapEx? Does it have to do with labor? Did you make any adjustments to that specific project?

And the second question has to do with the development of shopping malls. Have you seen any increase in the needs of social considerations to low-cost administrations or any road works that were not initially included in the project? I have seen some cases, specifically in Sao Paulo. Have you seen anything to that effect?

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

As regards Bela Vista, in some of our projects, the costs are not really in the release. They are updated many times. And when there is an increase in costs arising from the INCC updates, we also adjust the revenue in the release. So internally what we see is that the feasibility of the shopping mall is there. It continues.

It holds. And it's a great suggestion that when we open the shopping mall we can disclose these final costs. But in the specific case, I don't think this was seen by the Company as something that would have an impact or rather a negative impact.

As regards the other shopping malls and as regards the consideration, the road works required by local administration, these considerations exist now. In all of our projects, we include those costs, except when there is a case when the shopping mall is extended. And in some cases we might have an increase because we have to do that in advance. But the CapEx in terms of these road works required by local administrations as they have been required, they are already included in our budgets.

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## Q - Unidentified Participant

Let me go back a little bit to Bela Vista. I just wanted to understand this CapEx increase that went to BRL142 million. Was there a specific point there in relation to the release of -- for the Fourth Quarter up to today? I just want to understand what happened.

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

In one of the cases, they had to go with an adjustment in contract. So having to do with the collective-bargaining agreement, with contracts that are linked to the INCC Index, the index of civil construction in Brazil. At certain times, this is not felt quarter on quarter. But that's what I would say. It has more to do with this kind of issue.

## Operator

Our next question comes from Mr. Garcia from Bradesco. You may proceed, sir.

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

Good afternoon, to all. It's basically three questions. First, if you could give us a little bit more color about the sales performance in the First Quarter -- I think the performance was good and I just want some more color about the sales performance in terms also of growth and revenue from same-store rent and revenue from office buildings and shopping malls. I would like to hear a little bit more about -- from you about that, given that there's different scenarios in this specific case of the sales.

We see in the media that you are participating in a theoretical consortium to bid for the administration for the management of the Janopolese Pasio [ph] shopping mall. Are they looking for a new manager or not?

And also, the third question has to do with the pipeline for this year's project. I think you have spoken enough about the income-generating area. But could you give us some more color about the real estate development project, the new one, like Rio [ph] Catarina? Are you going to start building this year? Can you give us this pipeline going forward?

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

So, let me begin with the shopping-mall segment. We grew 19.2% according to sales reported by the store owners in the First Quarter of 2012, relative to the First Quarter of 2011. This shows that sales are growing in the Cidade Jardim shopping and also the growth revenues adjusted to 34.5%.

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What we see is that we have not disclosed sales per square meter for the Cidade Jardim shopping mall. We give more general figures, which are in line with our general views. Sales have been growing very substantially. The revenues from the Cidade Jardim shopping mall should reach BRL72 million, BRL73 million.

This is the revenue from a lease (inaudible). So finance is growing and also the revenue is growing relative to last year. And the occupation of the Cidade Jardim shopping mall -- this is something we look very closely with lower than 12%. We also look at the type of index that makes it feel very comfortable, as it shows that the shopping is performing very well.

As regards the second question, which had to with the Janopolese shopping malls. JHSF is not authorized to talk on behalf of the shopping mall. But what we can say is that they did put out a tender. And our understanding is that the objective of that tender was to choose a new managing organization within the characteristics that they have.

It is actually a condominium formed by more than one partner. We participated in the tender and we should be informed about the decision very shortly. You will receive news from us or the shopping malls.

And as about the pipeline in the real estate development area, the shop in Catarina is under construction. We believe that also in this are in Q3 we will see the impact of this launch. And in addition to Catarina we have the second phase of Boa Vista and Bosque Cidade Jardim we are finalizing the project. And we should have an additional area that would allow us to have a better result. And we will then reach our target in terms of launches. Have I answered all of your questions?

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

I think you have. And as regards the two projects, are you talking about two additional projects? And is it like you're negotiating land or --?

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

Some things have already been acquired. But as there will be a greater impact other than the acquisition of the land itself, we have to think about the registration and so on. So we haven't disclosed that yet.

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

Can you also talk a little bit more about the protecting of land in Sao Paulo, especially in your area of focus? And of course that's -- the volume that you need to acquire is low. So there is no way to know. But is there any change in the prospect? Has it become easier, more difficult? Could you make any comments about that?

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

In the last few years we have been able to acquire land. Most of the pipeline that we have for the recurring revenue segment came from a new project around Cidade Jardim and

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from others.

So, I would also like to mention Residencial as an example, Bosque Cidade Jardim. These are three new areas that have been acquired. And in our real development area, our vision is that in terms of the strategy of having a group of projects that are divided in phases and that bring us year on year an initial sales value that is already known.

There is going to be a variation year on year, because we have to buy land to launch BRL400 million to BRL500 million per year. And in view of the size of projects that we have been launching, that would mean the acquisition of four to five land tracts for the real estate development area and for the shopping mall area alike.

So, I think that if you ask me if the market is easier or more difficult, it has never been easy. In a heated market like it was in the last two years, it might have been more difficult. But yet we were able to perform well. And it's our belief that within the target that we have established, it is totally viable to achieve that.

The bottleneck in terms of land is big. But we have been able to demonstrate that in the last two years, although the economy was heated up, we did well. In the next two years, if the economy continues like it is now, we are not scared. And I think that the most important thing has been not only the acquisition of land but having the structure to acquire land, obtain the permits and approvals, to build the projects, to deliver, to provide guarantees to the customers.

This is one of our concerns now. We have to close the cycle. But I'm very optimistic that we will be able to continue to perform well. There are good opportunities arising that we are going to take advantage of in the market.

## Operator

(Operator Instructions). We will now close the Q&A session. 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 very much for attending our conference call. And we are going to keep the market informed about the developments in the Company. Thank you, very much and have a nice afternoon.

## Operator

JHSF conference call is now closed. I would like to thank you very much for attending. And have a nice afternoon. Thank you.

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