

Q1 2014 Earnings Call

Company Participants

- Eduardo Camara, Chief Executive Officer and Investor Relations Officer
- Jose Auriemo Neto, Executive Chairman of the Board
- Unidentified Speaker

Other Participants

- Enrico Trotta, Analyst
- Gustavo Cambauva, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon. Welcome to the JHSF Participacoes conference call about the results of the first quarter for 2014. We have here today with us Jose Auriemo Neto, Executive Chairman of the Board; Eduardo Camara, CEO and IR Officer, Andre Luis Rodrigues, CFO; and Marc Grossmann, Director. We'd like you to know that this presentation will be recorded and all participants are in a listen-only mode during the conference call. And next, we'll start a Q&A session when further instructions will be provided.

(Operator Instructions) Before going on, we would like to clarify that any statements made during this conference regarding business perspective, projection, operating targets and financial targets, are based on beliefs and assumptions by the Company's management and on currently available information. They involve risks and uncertainties referring to future events and events and depend on future circumstances that may or may not occur. Changes in the macroeconomic environment, the legislation and other factors may impact JHSF's future performance and these results that differ materially from those expressed in projections about the future.

Let me now give the floor to Mr. Jose Auriemo Neto, who will start the presentation. Mr. Auriemo Neto, you have the floor.

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon to all. Welcome to our conference call for the first quarter of 2014. I would like to start looking on page two, where you have the new organizational structure, which is already known to the market. I'd like to highlight the organization of our business areas, the Recurring Income, Real Estate Development, Hotels and Airport areas; and the new CEO, Eduardo Camara.

Bearing flat we have the opportunity to organize a new organization -- the structure and there is a belief that this will give more independence and economy for each one of the business areas. And management -- the holding company and Eduardo Camara in line with the fiscal counsel and the Board of Directors did, will actually -- really continuation of the way that's been operating and of course, in line with this structure and there is no change in terms of commitments on my part, on Eduardo's part in terms of the business plan. We're very glad, very excited about the new structure, we believe that we will have more and more conditions to perform the business plan that we have for the next year.

Regarding the highlights, we believe that results were very much in line with what we expected. Recurring income has been growing. And this is one of the main strategic asset for the last two years and so, we see a different side [ph] where the recurring income accounts for a larger part, 184% plus vis-a-vis the first quarter of 2013. We also resumed works at Catarina Fashion Outlet. We saw the beginning of the mobilization of the airport construction, which is a very important item in our investment plans in terms of projects that are being started. In terms of real estate development, we still have a negative impact. This is due to some adverse development, which is about to be concluded. More basically what we saw in terms of real estate development was the impact of this enterprise. But on the other hand, the other projects, especially Fazenda Boa Vista, which is a level very much comparable with what we had expected.

So the other works and other projects showed in the beginning of 2014, sales performance, which was a positive influence of the response and accepted by the market. I believe that this is a very good indication that we are responding fine in terms of the market and the economic environment that we're in. In the Hotels area, we also had a very good performance, very much compatible with our excellence [ph]. Now we're going to talk about the business areas in detail. And I'm going to give the floor to Eduardo, who will go on with the presentation from now on.

Eduardo Camara {BIO 2074637 <GO>}

Good afternoon. Thank you for attending the call. On page four, we have a summary of what was said and the impact of the strategy that we've been implementing successfully. So, the recurring income starting to consolidate its predominance in the activities of our business. This is our focus.

So, you can see this in the figures of page five. Without going into detail, but just looking at the qualitative indications that we can derive from here, better performance in malls revenue from shopping Metro Tucuruvi and Ponta Negra. We also have the malls that we're already operating, which also showed better performance and growth, and they also contributed to that increase in recurring income. The adjusted EBITDA grew 184% against the first quarter of 2013 and this is due to a very good control of G&A expenses. And this is actually one of our -- point one of our control, we want to be even more robust in terms of G&A expenses.

Financial expenses increased, but this was planned and was impressive, because we have now in higher concentration of the Company's indebtedness in this division during 1Q '14, after issuance and prepayment of debentures of December '13. So, our debt for the

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recurring income to expand the productivity and we see that we are concentrating on our own companies. And the resumed construction works of Fashion Outlet, Catarina Fashion Outlet is a very important project of ours which will be inaugurated in the first half of the year.

In terms of the real estate development, we see positive indications. Rate of confidence, more interest on the part of the business [ph] led to better sales. You can see the impact of Bela Vista project, which is a project that is now being delivered, it had had a very high level of passing on. The cancellation that we had -- initiated by us and by strategic decision and not due to any difficulties or any other problems with the funding.

We are quite satisfied in working on this project on a big range that has been growing through the year. It had also other negative impacts which is a guaranteed rent at Continental Tower, that is the thing decreasing, building is more than 60% rented out and recently we celebrated a new agreement renting 2.5 areas -- 2.5 floors. We want to proactively rent more and more space to offset this negative impact.

In Hotels, we see better revenues in all operations. The good news is a recent agreement to rollout and manage a hotel in Belo Horizonte. Belo Horizonte lacks good auctions in terms of hotel so we are fairly optimistic with this project. Our growth, from now on. Our priorities are to continue improving the operating efficiency of our existing assets' derived even more value from the project, we are happy with the results, but we see the glimpse of growth in terms of better revenues and reduction in expenses. This is one of the focuses and now it has changed as some of its main focuses.

The inauguration of the Fashion Outlet in the third quarter of 2014 is also something that will bring more revenues. It will add to the mix of assets that we already have. Let me focus on the next projects. One or the most important one is the Catarina Executive Airport. We're going to start the works at Cidade Jardim Shoppes at (inaudible) also is very important project which complements Cidade Jardim Mall and its surroundings of Shopping Cidade, where we have acquired the land from (inaudible) the land that belongs to a mall and (inaudible) which also will enable us to expand our activities in the area.

We are also expanding the existing shoppings malls in Tucuruvi and Ponta Negra. So we are basically focusing on expansion. We are sure of the things that are already deployed. A little bit more about the Executive Airport. which is the beginning of the teams, the mobilizations will start preparing the land and clearing the land for the airport. It's very much in line with what we had already planned. And some of its figures which I believe you all know but just to make it clear what we have in terms of investments, revenue and our expectations for EBITDA.

This growth is being funded by funds that are totally in line with our parameters and our vision of regularities. We have cash and equivalents, the receivable calculated just about that. We have a positive rate and we have a division of recurring income, which is more capital intensive [ph] and this generates this indebtedness. It stands 0.4 adjusted net debt and shareholders' equity. It's a little bit distorted because of the recent EBITDA. And since I am talking about accounts receivable, you can see on the slide on page 11, what is

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account receivable scenario is. But it still is a very positive perspective for receivables this year.

So, this what I had to say. I am now available for questions.

Questions And Answers

Operator

We'll now start our Q&A session. (Operator Instructions) First question from Enrico Trotta, Itau BBA. You can go ahead.

Q - Enrico Trotta {BIO 16742911 <GO>}

Good afternoon. Thank you very much for the call. I have two very brief questions. The first one, you said in the release that you are focusing on buying new land. We didn't see any reference to this in the call. So, how this process going on buying land in the City of Sao Paulo? How much do you expect to buy along the year? Also if you could give us some more color about that -- about what amount of the land will be converted into projects for 2014?

And then you also said, in the release that the channel has been delivered, is there any revision of cost for Bela Vista or has the (inaudible) already been accomplished?

A - Eduardo Camara {BIO 2074637 <GO>}

This is Eduardo (inaudible). We have been working and we have some biddings on the way and our focus actually this was achieved with the guidance, which occurred a little while ago. They are focusing on more in EBITDA than in other metrics, which are a little bit historic. We focus on profitability, the margins can oscillate a lot. So, Bela Vista is totally different from the other projects.

Q - Enrico Trotta {BIO 16742911 <GO>}

So when you are talking about EBITDA, much more attractive than when you talk in terms of GDP.

A - Eduardo Camara {BIO 2074637 <GO>}

Our EBITDA in the quarter, if you adjust it to non-recurring effect, it's very close to reach the guidance for the year. So we're talking a little bit more when -- if you adjust the EBITDA for the quarter and we have a guidance of 180 for the year. We're very optimistic about this guidance. It is challenging that people are motivated and has to go out with these figures, these targets. So there is nothing I can tell you right now materially. We don't expect to review our guidance. In fact, we are going to deliver on our guidance.

Horto Bela Vista, I would rather answer this question in a qualitative way. Of the towers that we delivered, (inaudible) done and we haven't seen any drop due to the buyers. We have an important volume of people paying their own funds. So, the press release [ph] is

correct. I think we are reaching or moving along the right course. I think we are going to have good moves in the future. This is much more probable than (inaudible).

Q - Enrico Trotta {BIO 16742911 <GO>}

Thank you very much.

Operator

Next question from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good afternoon. The breakdown in accounts receivables plus inventory in Horto Bela Vista, page 16, it's 320 million. From the 320 million inventory is more or less 50 million right, so it's 90% sold, I guess is that really or it is a typo?

A - Eduardo Camara {BIO 2074637 <GO>}

No, this is right. In last yes. it's 250 to 260 accounts receivables and something around 30 or 70 in inventories.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay, could you elaborate in terms of first bond receivables because the majority of those is not really Bela Vista, it's more of Fazenda Boa Vista, I imagine. So could you give us some more detail on what is not Horto Bela Vista, it doesn't depend on these passthrough? So what's your phase of receivables? Is it very long? I think people those who want to carry on for a longer period because the accounts receivables we need to know what Bela Vista was not Bela Vista in order to note the leverage for the year?

A - Eduardo Camara {BIO 2074637 <GO>}

I guess I'm little bit lost in your question. I'll try to answer and if I'm mistaken, please correct me. You want to know what is receivable is for the Horto Bela Vista? From the BRL700 million performed, we have around BRL400 million which are not ARPU, right, because ARPU is around BRL200 million something. So more than 400 is not posted in our platform.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

So what's the pace of receivables? Because I think ARPU will be shorter, right, with the transfers and receivables?

A - Eduardo Camara {BIO 2074637 <GO>}

When we see the curve of receivables, because I think this is contemplated here, we see the chart here is very short. For Horto Bela Vista, this in '14. So when you look at 200 million and there are many things in (inaudible) Bela Vista. We discussed (inaudible) because this is all accounts receivables, but we see that there is a concentration of 730 million by 2015 and very small installment for the next year.

So, our customer and realized the exceptional Horto Bela Vista but our customers usually pay that, they pay large chunks, they pay a lot during the delivery and around delivery. It is short-term payment, many times they pay in one lump sum when properties are delivered. I'd say that is between 24 to 36 months installment. So, it's a short-term payment, so this in the few words.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you very much.

Operator

Our next question comes from (inaudible). You have the floor.

Q - Unidentified Participant

Good afternoon. I have three questions. Could you please talk a little bit about the occupancy rate for Bela Vista and Ponta Negra? In these two projects with (inaudible) for the mobilization, Bela Vista at a higher level 94, but we haven't seen any evolution in the last quarter and Ponta Negra at 89. So what is your expectation for the occupancy rate for these malls? I would like to know that.

And second, about Cidade Jardim in phase I [ph], do you confirm what happened, say, for a while just on the intention of (inaudible) to change that area into commercial project or businesses? So if you want to take that into a new area with 22,000 of ABL, do you think it makes sense to have this reform so that later you have a totally new project? We see that the return on capital is higher to certify for a shorter period of time. Because I think there is a commercial order supply exist guided at corporate, is it going to complete, which is at old rents?

I don't know, I'd like to understand that a little bit more and the third one is about, the evolution in existing clauses for participation of this, could you please give us some color in how this profit is happening?

I know that part of this is linked to the asset, but how do you see those and how do you see the final actually in -- by (inaudible) what are the next step regarding (inaudible) ?

A - Unidentified Speaker

This is Eduardo, good afternoon. There was a period of stabilization in the two malls Bela Vista. (inaudible) we're very optimistic that this year into return optimization and management for the recurring team. I think the level of occupancy in both malls would be good. For Bela Vista, you can see already some movement in the near future. Manaus, we still see some stores opening and we see occupation of what is already rentended and a growth in these at first. In terms of Cidade Jardim, we don't see a final project from the aspects. We are working in terms of preliminary studies, our intention is to wait with the project in-hand to -- if the reality that we are going to discuss with the architects and see whether some adaptation will be the case. So, it depends on a project that still not approved as a final project. You also asked about the (inaudible)mall. We have some

clauses and suspension and (inaudible) due diligence which is occurring there is some documents that are being requested. So this is in due diligence and we are not really about to conclude. But this is not linked to the airport. There is a possibility of (inaudible) but the airport is going to happen regardless of what happened on that front of that mall.

Q - Unidentified Participant

Are you working with the possibility of not having part of the payment linked to the airport, 200 million [ph]. So, if not -- if the airport doesn't happen with the acquisition, going to (inaudible) a different question, I'm saying that the airport was going to move on regardless what happened to the malls purchase?

A - Unidentified Speaker

Yes. This is -- the differentiation was the mall is linked to the airport. Well, the commercial clearance has not changed. We are discussing the resolution conditions. And if one of these issues does not come through a good resolution, what happens, does it open? Well, it's difficult to speculate in generic term, we would have to see specifically what conditions was not met, what the impact is because, (inaudible) hard to give you an idea. (inaudible) I'm sorry I cannot be more objective.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions) Just one moment while we collect the question. (Operator Instructions) So our Q&A session now concluded. I'd like to give the floor to Mr. Eduardo Camara, for his final remarks.

A - Eduardo Camara {BIO 2074637 <GO>}

Thank you very much. I thank you all for attending. I thank all those who asked the questions, for their questions. And I'm available for any other clarifications. Thank you very much. See you in August.

Operator

JHSF Participacoes teleconference is now concluded. Thank you very much for attending and have a nice afternoon.

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