

Q2 2014 Earnings Call

Company Participants

- Eduardo Camara, Investor Relations
- Jose Auriemo Neto, Chairman

Other Participants

- Alain Nicolau, Analyst
- Gustavo Cambauva, Analyst
- Louise Oliveira, Analyst

Presentation

Operator

Good afternoon. Welcome to the teleconference of Earnings Release of JHSF for the Second Quarter of 2014. Present here with us, we have Jose Auriemo Neto, Chairman of the Board of Directors of JHSF, Eduardo Camara, CEO and IR Officer, Andre Rodrigues, Financial Officer and Mark Grossmann, Officer.

We inform that the presentation will be recorded, and all participants will be in listen-only mode during the presentation by the Company. After that, we'll start the Q&A session, when further instructions will be given. (Operator Instructions) Before starting, I would like to clarify then any remarks made during this conference regarding the business prospects, projections and financial operating goals of JHSF, are the assumptions of the Company's management, as well as based on the information currently available. They involve risks and uncertainties and relate to future events, and therefore, depend on circumstances that may or may not occur or on other operating changes in macroeconomic policies, laws and other factors may change the information available to JHSF and its business and cause it to differ materially.

So, now I'd like to transfer the floor to Mr. Jose Auriemo Neto, who will make the presentation. Please, you may proceed sir.

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon ladies and gentlemen. Thank you for your presence for attending this earnings release presentation for the second quarter of 2014.

I would like to make a brief comment until I pass the floor to Eduardo, who will make a more detailed presentation about indexes [ph], but basically the overview is that the recurring income division, we continue to grow, as it is the strategy developed for the

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Company lately. And, we show good results in terms of growth of revenues and sales especially at the shopping malls, our projects that are maturing, as well as in Cidade Jardim shopping mall.

The area of real estate development is still being affected by non-recurring events especially increase in costs, more specifically in Salvador. We had a good performance in the Hotels area with an important project for the Company, which is the Catarina Airport, whose the construction works started. And we believe this is an important landmark for us. There has been an increase in the recurring income areas.

I'll now pass the floor to Eduardo Camara, so he will continue with the presentation. Thank you.

Eduardo Camara {BIO 2074637 <GO>}

Good afternoon. Thank you. I think some figures are worth-mentioning and emphasizing Item one to mention the figures, but I'll talk a lot more about the strategic part of the Company. The focus on the growth of recurring income has been happening as expected and according to the schedule we prepared in the planning area of the Company.

This is an important focus of management. And I'm being redundant deliberately, the consolidated aspects. The generating cash flow of BRL140 million in the quarter. We'll comment on that later on. And now I'll move to the next page. And I would like to call your attention to the main factors that are reflected in such performance. First, is the strong revenue growth. Again conforming the strategy I have mentioned, the lease spread that has been achieved at Cidade Jardim Mall is a relevant factor for that contributed to this increase in revenue, because it's the shopping mall, that the leader in its segment in the City of Sao Paulo. The sales increase at the Bela Vista Mall now moving to its third year of operations.

It is a very important mall in the town of Salvador. It is being benefited by residential projects, also it was positively impacted by the soft opening of the Subway Station nearby. There was a large benefit, because this mall was used during the World Cup as a point where bus has left next to it and it was very beneficial to the shopping mall. And this year, we had a full quarter of operation at Metro Tucuruvi and Ponta Negra Malls, both now in their first year of operations In Metro Tucuruvi in April and Ponta Negra in August.

We've also had strong adjusted EBITDA growth, impacted by the revenue increase, as well as by the control on expenses that grew less than proportionately. As for real estate development earnings as said in the opening remarks, the results impacted by non-recurring items. And I would like to emphasize that non-recurring item. Cost overruns at Bela Vista still had an impact of some adjustments. We had some customer once which in our understanding should have been covered in the construction execution agreement at a maximum price guarantee, and the Company has started an arbitration procedure to recover the values that we believe are included in that contract.

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We also had a favorable impact by the reduction of minimum guaranteed rent paid at the Continental Tower which now at levels that are very reduced, because we now are renting and now that the units and ending these minimum guaranteed rent agreement.

Contracted sales were higher than previous quarters. There has been a slight change in the sales mix that was reflected in earnings such as more housing or more residential Bela Vista than land. And we had a decrease in G&A expenses. Hotels division earnings was a great performance, that's the superior for some hotels in Sao Paulo and Rio during the World Cup. If it was not the cup was not so good for other as it was quite beneficial for this area.

On page six, we have the indebtedness, secured. And the indebtedness is in line with the figures presented for the previous quarter. And we have the payments schedule for this debt. And, as we have always done in previous years, the Company is always seeking new opportunities in fact to allow us to increase the maturity and reduce the cost of our debt. And we are analyzing the possibility.

On page seven, we see accounts receivable, with a decrease in the balance, which is reflected in the realized cash in the period as mentioned before. And the chart, at the bottom shows first that it's a short-term account receivables, because we have customers that pay quickly their debts. And we have an impact of Salvador, because now that we are delivering the items. We have a significant number of transfers being conducted.

Now, the growth ahead. I believe the inauguration of Catarina Fashion Outlet is the main landmark, it's scheduled to happen in September-October this year. So, we are within 60 days of opening. We have started the construction of Catarina Executive Airport and funding financial closing. And so we continue with financing growth of the recurring income division with the operating cash flow from the real estate development division. We continue to seek the excellence in this area.

Talking about the portfolio at Reserva Il project. This is the project that now has a portion of real estate development, as you can see on slide nine. In addition to this shopping mall, with a GLA of 26,000 square meters and our recurring NOI of BRL58.1 million. There are the residential units, luxury apartments, hotel and offices, but no office flats, but smaller offices, because there is a large demand for that kind of a smaller office nowadays.

We see a PSV estimated 1.6 million, not including the non-recurring income.

On page 10, we can see what has been said in other earnings release, the conference calls and as well as in this presentation, which is the prevailing recurring income as a prevailing item in our strategy. On page 11, recurring income project pipeline, we have the shopping malls that are in operation. And I hope in the next earnings release Catarina will be at the top as an operating mall as well, with the NOI line may reach 210, and the other projects are in different development phases which project a total recurring NOI about BRL400 million.

A few speaking about the airport and some important developments in the funding. First, the migration already approved by shareholders at Shareholders' Meeting and the funds

Catarina Corporate and Catarina Corporate Berlim is trendsetting that to the Airport project, which means that the cash available at the fund and future funds will be destined allocated to the airport works, construction works. We have negotiations with some minority interest to institutional investors and BNDES approve its projects qualification for a long-term financing.

I think, these are the main aspects and the figures that I said, show that the non-recurring income is the main focus that has grown as expected as scheduled. The airport is a major investment and is within schedule. And now I'm available to answer any questions you may have.

Questions And Answers

Operator

Thank you. We will now start the Q&A session. (Operator Instructions) First question comes from Gustavo Cambauva from BTG Pactual. Please Gustavo.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good afternoon. I have two questions. The first one, if you could speak a little bit about the Reserva II project. You've broken down the details about the adjustment to these projects. Could you elaborate a bit on the timing of it, how well were you doing in terms of approval? If it has been 100% approved or whether you still have to change the project a bit or that has been finalized? And also what is the PSV residential units or the shopping mall would be first? What comes first within Reserva II project?

And the second question is about the airport. Are you already working on the funding of the airport and have started the construction works at the same time. I would like to understand to what extent you would be able to continue with the works even without the funding or it's like, would you continue the construction works without some further funding only with the own capital of the Company?

A - Eduardo Camara {BIO 2074637 <GO>}

This is Eduardo Camara speaking. Okay. Your question about Reserva II, it's PSV predominantly residential. And the question about breaking down the PSV, a large part of the area is residential with services or residential units, hotel and offices, accounts for a smaller part of the PSV. This is a building with important differentiation in terms of project, design, location that will undoubtedly be a very adequate project to the types of customers that we serve. We've done market studies and in our conversation with customers, they had proven to be a right strategy. And it's going within, it is on track. We haven't had any surprises on the contrary. The approvals are proceeding as planned and we expect to have a more precise, a more accurate date until the end of this year, but I would work on something along the beginning of next year.

You asked the question about the airport. We've had BNDES qualification, which provides with the matched funding for this project. We also have the funds from the migration of

investors, from the real state funds Catarina and Berlim, that are migrating to the airport and these are funds totally comparable to the expenditures incurred in this beginning of the construction work. And we are working with further investors on our negotiations are advanced, but we continue with that idea that assumption of matching funds.

So, what we have already ensured in terms of funding is comparable with the expenditures of that project. So we continue with that strategy.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Alain Nicolau from Bradesco. Mr. Alain Nicolau, you may continue.

Q - Alain Nicolau {BIO 17913545 <GO>}

Good afternoon, everyone. I have two questions. Can you hear me?

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

Yes. Go ahead.

Q - Alain Nicolau {BIO 17913545 <GO>}

I have two questions. I would like to know about the guidance for the year. This EBITDA 180 seems to be a bit far and then recurring income for 290 next year. Could you elaborate a bit on that since there is only Catarina to come and maybe you would need a significant growth in operations to reach the guidance. And given the macroeconomic scenario, how do you see these two guidances, I mean how do you expect them to be reached? And also at Salvador, there is more excess in cost and there is 3 million more to be dispersed. What is that about, I mean, is that a cost of Reversa II or is that a problem in the project. And when do you expect to deliver the keys and what are the plans, any sales events has been announced, I would like to understand that project a little bit better?

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

Alain, starting with Salvador. I think the completion is happening as we speak. The construction works are almost completed. I do not have right now the breakdown of this 13 million. I will try to obtain the figures during the conference call, otherwise we commit to release that information in order to answer that question.

We have delivered more than 40% of the units. So, this is something that is getting very close to the end. It's important to remind what I have spoken during this presentation that, it is our understanding and we clearly believe that certain costs that cause this cost overrun are covered under the agreement that ensured a certain price for that project.

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So, there is an arbitration procedure that we have filed. We are not going to give more details. But we are asking for a refund about these figures, because I am very sure about that. Your other question was about the guidance. I believe that these recent figures have a non-recurring impact, which makes the figures a bit distorted, we're not changing the guidance now. So, we do have to work to, to try to achieve them. This is the focus of (inaudible), the Chairman of the or the President of the area of development projects or Robert, the CEO of a shopping mall said I wouldn't change the guidance today. Other than that, that this is what I can say for now.

Q - Alain Nicolau {BIO 17913545 <GO>}

Thank you.

Operator

The next question comes from Louise Oliveira from Brasil.

Q - Louise Oliveira {BIO 18269348 <GO>}

Good afternoon. Thank you. I would like to understand the real estate development cost at Salvador, the margin was a bit slower than historical average. So, I would like to understand has there been any impact of a different factor. And what we could expect from the growth development margins?

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

I am sorry, could you repeat the question. The first question I couldn't understand it?

Q - Louise Oliveira {BIO 18269348 <GO>}

It's only one question regarding the real estate development cost. The work, the 8 million from Bela Vista even so the margin is still below what you have presented in 2012 and '13? Are you, is that because of a cost overrun or the budget review has had any different special effect on the project excluding Bela Vista and what you expect for 2015 in terms of gross margin?

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

Well, answering the last part of your question. We always work to improve margins, which is obvious, but I would not be comfortable to make any projections on margin, but we always speak to recover or reach the best possible margin. And I think our history is compatible with the company's business so far. In terms of cost over run, there has been no cost overrun except for Salvador, which was relevant. And the margin is indeed affected by mix. The values of land or plots, and the total value of Bela Vista is the component, the mix of land in Bela Vista in the total sales projects.

These are projects with very different margins. So depending on what is selling more is that has an impact. But the only significant capital program happened in Salvador. The others were slightly above, slightly below, but nothing really major.

Q - Louise Oliveira {BIO 18269348 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) We now end the question-and-answer session. I would now like to pass the floor to Eduardo Camara for his final remarks.

A - Eduardo Camara {BIO 2074637 <GO>}

I would like to thank all of you for attending this call and for your questions. And myself and the entire team of JHSF is available for any further clarifications, that maybe needed. And for those who did not attend the conference and may listen to this recording later on, the Company remains available as well. Thank you very much.

Operator

The conference call of JHSF Participacoes' has now ended. We would like to thank you for attending this call. And have a good afternoon.

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