

Q1 2018 Earnings Call

Company Participants

- Thiago Alonso de Oliveira, Chief Executive Officer and Investor Relations Officer

Other Participants

- Unidentified Participant

Presentation

Operator

(Foreign Language) Well, good afternoon. Welcome to JHSF Participacoes Conference Call to discuss Earnings of the First Quarter 2018. Today with us are Thiago Alonso de Oliveira, CEO and Investor Relations Officer; and Mara Boaventura Dias, the Investors Relations Manager. We would like to inform you that this presentation is being recorded and all participants are going to be in listen-only mode during the company's presentation. We'll then start with a Q&A session, when further instructions will be provided. (Operator Instructions) This event is also being simultaneously webcast on the company's website at ri.jhsf.com.br and also on the MZiQ platform, where the presentation is also available for download.

Before moving on, we would like to let you know that any statements made during this conference call relative to JHSF business outlook, projections, operating and financial goals are based on the assumptions and beliefs of the company's management and rely on information currently available. Forward-looking statements involve risks, uncertainties, since they refer to future events and therefore depend on circumstances that may or may not happen. Changes in the macroeconomic policy or in the law, as well as other operating factors may affect the future performance of JHSF and lead to results that will materially differ from those in such forward-looking statements.

Now, we'll turn the call to Mr. Thiago Oliveira that will start the presentation. Please Mr. Oliveira, you may go on.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon, everyone. Thanks for attending our conference call to discuss our earnings of the first quarter '18. For those of you that have the presentation with you, I'm going to page three with the highlights in our opinion about the first quarter. As a whole, our message is that, this was a quarter in which we improved all our indicators with increase in 16% in our gross profit and improvement of our gross margin 560 basis points.

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We had a significant reduction of expenses in 36% in all items that are part of our operating expenses together with the better growth prospects impacted in 105% of improvement in our adjusted EBITDA and also an increase of 19 percentage points in our EBITDA margin, compared to the first quarter last year. Also in financial results, an improvement of 38% here in a combination of lower base rates and better spreads from important -- that will enable us to report on growth. And net income, although we had a lower amount of valuation of our properties for investment, we had an improvement of 44.5% in our bottom line results.

When we focus on our shopping malls operation, this is another quarter for improvement in our operating indicators. We are very happy to deliver 8.5% growth in retailer sales. And I think the major highlight was shopping Ponta Negra which had more than 38.5% in growth. This is fruit of management, operations -- operation wise, as well as a maturity of the shopping malls operation itself, which was a bit lagging behind, because of the delay of residential deliveries of the construction companies that we're working in the segment and were affected in the deepest part of the crisis we had in Brazil.

When we look at improvement in operating results, again very healthy growth in all sales indicators. As for occupancy rate, we took an important step. We increased occupancy by 220 basis points, with 95.2%, we still have a small proportion of vacancy in the Salvador mall and in a reduced ratio at the Manaus mall. With all that, we were able to deliver to retailers a reduction in occupancy costs of 100% basis points, going to 10.3%. So we are very pleased to be offering to retailers growing sales, lower occupancy costs and in exchange we are also being able to reduce vacancy and improve our operating indicators.

Going to the next page, I give a bit more detail about our consolidated results. On this page, we have growth of gross revenue of 0.5% year-on-year, with major highlight for recurring income in net revenue. We almost have a mirror of what happens in gross revenue, however, given a very intense program, we are engaged in directed to costs and here especially hotels and restaurants we had significant evolution of 16% in gross profit. And in EBITDA, we see our EBITDA growing by 105% with very good performance in hotels and restaurants, recurring income and real estate development. Also, good performance with a reversal of what was in the first quarter last year and also a reduction of expenses in the holding as a whole.

Going to page number five, we present our consolidated financial results and consolidated net income. Again following the same lines as previous pages, we see an improvement, financial results in this quarter went to minus 27.5 against minus 44.7 we had last year. The whole work that was developed in 2017, specifically in the fourth quarter towards the reduction of spread and also the reduction of the SELIC rate were the leverage for the significant reduction. And when we think of consolidated net income, we see an improve of 44.5%, compared to the same period last year.

When we go to page six, we get a bit more color on the evolution of our mall performance. So you see that retailer sales went from 426 million to 462 million, 8.5% growth, which is quite substantial, given the fact we had very low inflation in the period. So the real name -- number is representative. And when we look at operating indicators, we

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also see all these indexes that are quite healthy with what we see in terms of business environment in this quarter.

Given the growth of sales, and the amount in which rental amounts were increased, we had an important decrease in the cost of occupancy for retailers. We are developing some focus directions in the expenses with building costs. And finally, what I would like to highlight is this less charge is an improvement of the country's economic scenario. We see an improvement in commercialization rate in the two shopping malls in which we still have some vacancy, which are in Manaus and Salvador and are taking an important step towards decreasing vacancy, improving commercialization rate, particularly in the Manaus shopping.

Going to page number seven, we see the operating indicators of hotels and restaurants. We saw in hotels growth in the average daily, growth in occupancy rates and growth of RevPAR. So in terms of top line that was quite an important fact and when we look at numbers of Couvert units and average Couvert, you see numbers that are well also quite healthy year-on-year and quarter-on-quarter.

When we go to page number eight, we bring you a summary of what happened to the main developments of the company. I think the highlights here are the net sales in Fazenda Boa Vista that had the reversal compared to the first quarter last year and the main driver probably in terms of numbers compared to '17.

As for revenue, we have growth of 7% and on the day-to-day of this breakdown, we are right now organizing some projects and some launches of what we're having inventory in terms of land, especially in Fazenda Boa Vista to resume a more robust sales flow and better results. So we are now looking at Fazenda Boa Vista for the coming quarter, as the project that will enable us to have a bit more commercial activity, compared to what we observed in our recent past.

Going to page number 9, here we briefly describe our debt profile and some indicators related to the cause of that. Here perhaps, we could already advance that our objective with the evolution of our negotiations in the recently announced material fact with this XP Mall front, we are going to use part of resources from that operation to continue our project to enhance our capital structure and therefore reduce leverage, financial leverage indicators. Along the lines of what we have been establishing as the goals for the company, in the Q&A it will have more questions about that we can clarify, that's a little.

On page 10 we bring an updated picture of Catarina Fashion Outlet. We have two areas highlighted here. One in the upper left part almost and the other -- almost in the whole of the right part of the picture. These are extensions of 55 -- 5,500 (sic) meters of expansion, we expect it to be opened in August. The part of 1,000 square meters to the left is going to focus on the cluster of luxury brands. And in the parts to your right of 4,500 square meters, we have a total of 23 stores. Today we have 90% of this station already rented with a very interesting pipeline for the coming months.

So this process helps us to complete a first major phase for Catarina Fashion Outlet that has -- has brought much joy for us on the day-to-day and from which we are receiving very good feedback from customers, retailers and shopping mall growers.

Well, with that, I would like to stop the presentation and give opportunities for any questions you might have.

Questions And Answers

Operator

Thank you. We'll now start the Q&A session. (Operator Instructions) (inaudible) with Brazil, would like to ask a question.

Q - Unidentified Participant

Good afternoon, Thiago. Congratulations on the results of JHSF. I have two questions. One about Jardim shopping that is expected to be launched more towards the end of the year. I would like to know what negotiations with retailers look like. And second, if you could talk a bit about the cancellations recorded in this quarter, a bit above what we had last year, what do you see from now on? What kind of demands that you have in terms of developments for JSF -- JHSF? Thank you.

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

Thanks, Joshua for your two questions. We are following with a schedule of construction of our mall. The plan is to have the shelf for retailers is still within the year of 2018. And with that, meet, what we're expected to do. As for the discussion of rental, the product was and is being there, were welcomed by retailers because of its geographic positioning in town, no one has any questions that it has huge potential. So we have had very profitable negotiations with retailers. If you please repeat your question -- your second question, because I didn't really quite understand what your question was.

Q - Unidentified Participant

Well, I just would like to have your opinion about the development decision for the coming quarters. What kind of demand do you have for your inventory, and what do you expect in terms of cancellations?

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

Well for cancellation, it's something that is a lot more unilateral than multilateral. So I really cannot advance the specific issues related to cancellations. We know that the number of cancellations has dropped. And I think that this is associated to a better situation where some of our customers who are having more difficulties to make their payments and now we see a positive progression in this regard. As for demand, what we have been seeing more recently, and this is specifically for pricing the Boa Vista is that those that still do not own or use Fazenda Boa Vista wants to have some kind of stake there -- some kind of a more present participation in their development. When I mentioned some launches that

we are thinking about for Fazenda Boa Vista, we prepared some homes with renowned architects. The idea is to start construction very soon and then use this product, both in the commercialization and in the rental model.

We have been receiving quite recurring inputs from those that work in commercialization, that there is demand for ready-to-use product, because it had been a while since we did not build the homes that place. It was a market that we're not participating in the recent past, so we are going to make some investments in homes in Fazenda Boa Vista for either to be rented or sold. And it seems that this is what the market is signaling in terms of product demand.

Q - Unidentified Participant

So are you expecting to make these investments for this year?

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

We should start more towards the second half of '18, but it's going to be a gradual process and it is going to be monitored from close -- from commercialization itself.

Q - Unidentified Participant

Okay, thank you very much.

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

You're welcome.

Operator

(Operator Instructions) We are now closing the Q&A session. We are going to turn the call to Thiago Oliveira for his final remarks. Please Mr. Oliveira.

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

Thank you very much for joining us in this conference call. And remember that myself and the IR team are available for any question you might have and that were not answered during this conference call. Best regards and I wish you good afternoon.

Operator

The conference call of JHSF Participacoes is now closed. We thank you very much for your attendance and wish you a good afternoon.

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