

## Q2 2013 Earnings Call

### Company Participants

- Andre Luis Rodrigues, Chief Financial Officer
- Eduardo Silveira Camara, Investor Relations
- Jose Auriemo Neto, Chief Executive Officer

### Other Participants

- Alan Nicola, Analyst
- David Lawant, Analyst
- Gustavo Cambauva, Analyst

### Presentation

#### Operator

Good afternoon. Welcome to the earnings release conference call, JHSF Participacoes, for the second quarter of 2013. Here today, we have Mr. Jose Auriemo Neto, CEO of JHSF; Eduardo Camara, Vice President and Investor Relations Officer; Andre Rodrigues, CFO; and Marc Grossmann, Investor Relations Manager. We inform that this presentation will be recorded and all participants will be in listen-only mode during the Company's presentation. After that, we'll start the Q&A session, when further instructions will be given. (Operator Instructions).

Before proceeding, let me clarify that statements which may be made during this call about business outlook, operating and financial projections and goals of the Company, are based on beliefs and assumptions of the Company's management, as well as on information currently available. They involve risks and uncertainties and hence they refer to future events, and therefore depend on circumstances that may or may not occur. Changes in the macroeconomic policies or loss and other operating factors may affect the future performance of JHFS and lead to results that differ substantially from those expressed in such future statements.

Now, I would like to pass the floor to Mr. Jose Auriemo Neto, who will start the presentation. Please Mr. Jose Auriemo, you may continue.

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

Good afternoon ladies and gentlemen, welcome to our conference call for the earnings release of the second quarter of 2013. I will start by giving some highlights that are important for the second quarter. And then I will give an overview of the qualitative aspects of the Company regarding our business units, till that we can address our vision

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and also the outlook we see for each of the business units may be concentrating less on reporting on the figures which are described on the presentation, as well as on the earnings release that we published.

So as important highlights, we have the opening of shopping Metro Tucuruvi Mall that had an excellent performance since its opening in April. We had the launch of two other phases in Fazenda Boa Vista project with a PSV of BRL298 million. In the area of recurring income, we had an increase in revenues that was quite good, 117% when compared to the second quarter of last year, which reflects a submission we have been mentioning for several quarters, which is to emphasize increase in the business of recurring income.

I think this quarter enabled us to see in figures the consequence of this strategy. When we look at the total consolidated income, we had an increase in the 43% to 49% in the gross margins, the general -- and G&A expenses reduced by 13% and compared to the same period last year. Adjusted EBITDA of BRL73 million, which means that 4.5% increase on consecutive second Q '12, which is pretty much in line with last year.

We'll talk a bit about the margin and net income further on and we are able to maintain our net indebtedness level, the adjusted net indebtedness in same levels of last quarter, which is a very good index for us giving the sequence of investment we've been making, in order to complete the Metro Tucuruvi Mall, as well as Ponta Negra Mall that have some standards last few months. We also have BRL18 million paid in dividends. Throughout this year, we have showed how important it is for JHSF to grow and to maintain good indexes in terms of indebtedness. But in addition to the growing and maintaining our indebtedness within conservative parameters, it's also important to look at the company's capacity to compensate its shareholders by paying dividend.

We also highlight that we have a Fiscal Council installed, this is an important stuff for the company relating to the corporate governance system. After the closing of this -- as of the end of the quarter, Cidade Jardim Town Houses were launched in the area of real estate development as well as Mena Barreto, these two projects are important. We just ended a funding for -- investment fund for Fazenda Boa Vista Rio Bravo. We opened shopping Ponta Negra in August as well as this opening was marked by a very large amount of customers, it was a surprising opening even for some store owners and retailers in terms of how much sales they've reached.

And we also had the federal civil aviation authorities issued the preliminary concession permit for Catarina Executive Airport which is the authorization by the Civil Aviation Secretariat allowing our airport to upgrade and therefore charge the fees for it, which is an important step.

These are the main highlights for this quarter, in this quarter, we also have a presentation that more organized according to our in-house processes which is a division very clear -- clear division among business units. Each business unit in the company is led by a different group of executives and we have a core group of executives that consolidate all the business areas and investment policies. So, I think that our release for this quarter states that more clearly.

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So, on slide number four of the presentation, we have an overview of revenues in which the developing -- business development units has a prevailing -- real estate developments has a prevailing role both in terms of revenues and EBITDA. And by 2015, probably it would be much more balanced and the recurring income area we will probably account for more than 50% of the Company's revenues. This is the focus of the Company and this is the fact we are following. I believe that from now on, every quarter we'll be able to show this process and the involvement of this. We believe that we've increased our Recurring Income business, Real Estate will balance out, it's not that Real Estate Developments will decrease, but it will be more balanced with the other areas.

In terms of quarter ended financial highlights, we've had a drop in the revenue. But this drop is caused a bit by the basis of the revenue, strong real estate developments by recurring income. And when we compare the profit when compared to last -- same period of last year, it was impacted by two important benefits, two important events, which is the guaranteed loan from the towers and is towards BRL2 billion [ph] we have a decreasing impact for the next quarter and then we had a non-financial revenue of the variation of investment fund Metropolitan office, investment funds unit, which are major variation in the markets. In the last quarter, we earned 23% of the capital of this fund in the Company and that reflected an (inaudible).

We are able to see in the table that removing the positive effect that this same fund had in the second, third quarter of last year, the income is quite balanced and very similar for both periods. When we go business by business now, starting with the Recurring Income area, as I have mentioned before, this quarter we had a significant increase in revenues because of the new projects that were opened. Shopping Metro Tucuruvi Mall as we had an effect of an 11 million and increased revenues for this quarter. And Ponta Negra Mall will show up in the statements in the next quarter. Within this analysis of recurring income projects, especially from the malls, I would say that we had a net margin of 32%.

The company is working so that in the next quarter it will be able to improve such margins in terms of EBITDA and net income. Based on some recurring -- rather, because some expenses result from these openings and they will no longer be present in the other quarters. Sustenta in the segment of Energy and Telecommunications, is providing support or services for these company developments. And I believe that in the next quarters, we'll be able to see an improvement in the margin of this activity because this is still a project that is in an early stage, especially from the malls that are finishing their works right now, the fixed costs will decrease.

On page 7, there is a table that shows NOI -- NOIs for ready projects, Cidade Jardim R\$62 million, Catarina Fashion Malls which probably will be ready by this year. And we also show here to address the growth of the shopping malls area. We show you the projects under development. These are projects that will probably be implemented in the next years. And so this table gives you a qualitative as well as a quantitative view of the increase that this area will undergo with the projects that have been announced and for which investments have been made already. And this project base is something that will help us to grow and the recurring income projects on the shopping malls.

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In the presentation, we also have some data about Shopping Metro Tucuruvi mall such as the initial sales. Although, the mall is not completely open, it was opened in two phases, phase one 26,000 square meters and the second phase has about 33,000 square meters. And the figures in this quarter is still based on the EPL of 22,000 meters. So, we expect greater income for this project given this new GLA.

As for Ponta Negra mall, we have some witness -- some sentences said by retailers, saying their comment, retailers comments, saying how important this mall has been and what a surprise, what a good surprise it has been since its opening.

And now, just to mention the Real Estate Development division. The earnings in this period were quite in line with our expectations. We had expected a reduction in revenues a bit given the nature of some developments. They are seasonal and they depend on approvals and permits. So, there are quarters in which real estate development revenue vary. And we are maintaining our outlook regarding new launches but more than new project, the contribution margin given by the real estate development division and how much it should account for the entire company.

So, the reference that the company has viewed for this topic is with a launch of BRL1 billion per year will probably provide a contribution of BRL200,000 to BRL220,000 per year in EBITDA. Therefore, the composition of the PSV at the launch probably will have this characteristic. There will be some developments with higher margins and the company probably won't pay so much attention to the large PSV value, but rather the capacity that this real estate development addition has to bring, on a recurring basis, good results, which are quite compatible with the earnings we have had in this area lately.

In the release, we saw that these real estate development projects in 2010, '11 and '12 accounted for 247, three figures, one for each year, the last one being the one I said. And so these developments plus the land banks of land we purchased. We can continue to operate in this area within these parameters and mainly focused on the customers that we are used to serving. So, we -- it is our intention to continue to make products for the high-net-worth customers.

In this quarter, we have more details about the hotel business of the company with a growth of 6% when compared to last year. It's important to state that in the hotel division, we consolidate the results from revenues and expenses of both developments related to which are the hotels in Fazenda Boa Vista and hotels in Punta del Este, Fazenda Boa Vista hotel is a balanced project, and it is having profit -- it's profitable already. So, it is -- within the company's goal, it is considered a conventional hotel.

And Punta del Este is not profitable yet. So, for the purposes of analyzing the hotel business, we've made this adjustment removing the contribution from the Punta del Este hotel since the Real Estate Development project is still supporting its existence. But what's important in this segment is that we're quite excited about the results, both of these projects that I mentioned as well the hotel in Sao Paulo and Rio and the outlook for growth in the hotel business are very good. We believe this is a segment that from now

on we will look more and more carefully at because we believe that this is an important business and a profitable one for the company.

We intend to make the most of all opportunities we have ahead of us to increase revenues and as well as the income from this division. Since it is a recurring business and also a high-net-worth business, we believe that this is very compatible with the strategy and the outlook we perceive for the company.

In the retail division, we also show you the earnings broken down. The retail division currently is operating in four brands; Hermes, Pucci, Jimmy Choo, and we just made a joint venture with Valentino. They have a store that they just have come out, but it's also its strategy to be present in other shopping malls as it happens with Valentino. And it's not only strategic for our shopping malls, but we believe that retail in Brazil has become more and more international, more globalized. So the number of brands that are now looking at the Brazilian market with a long-term perspective is quite high.

Also because of the performance of these stores for Brazilian were not in Brazil. So, they want to be close to customers in -- be seen by customers' growth in Brazil as well as abroad. So this is a trend that we have been looking at carefully, paying attention to the possibilities of growth in Brazil.

Now talking about the last segment, we have some information about the Catarina Executive Airport. This project is developing according to expected in terms of its phase development because the project like this has to be developed on a phase by phase basis and from this beginning until the completed work, we've had three stages that are completed already and we're starting for the environmental permit to start the construction work.

It is our understanding that these permits are in the end of their processes, so probably we will -- it's probably happen so, but it's important to emphasize that an approval process for a development like this involves several stages and we have fulfilled strictly and with very dedicated (inaudible) every stage of this process and be very clear in releasing all information about it. We will release that after these permits have been obtained, we'll start the construction work of the airport. Part of it will be and -- or be completed in by 2014 and the other part by 2015. Of course, this is subject to other factors that are feasible in projects of such nature.

So, our prospect for profitability of these projects has not been disclosed yet, but they are in-line with our expectations and we're confident about the profitability of the other businesses in the company. We would not be developing this kind of project if the profitability was not attractive when compared to other businesses of the company. This is one other fact that led us to enter this business area.

Of course, you have to carefully evaluate the return on investment of each project and we believe that Catarina project also because it will contribute to the infrastructure and the growth of the executive aviation market in Brazil. We believe that this project will bring us an opportunity to be close to a customer base that we know somehow. These are

customers that have synergy with other business areas of the company and also connected to a topic of infrastructure that is very important and it will have many opportunities for growth in Brazil and the years to come.

On page 16, we are talking about the capital structure of the company. The company's vision as a holding to align its investment to cash generation division. We can basically show that when we look at the receivables from the real estate development area when compared to the indebtedness analysis on page 16. Here you have the indebtedness composition and the schedule for payment in future years.

On page 16, you see on this table, the accounts receivable. We've had an important advancement this quarter, because we were able to redo the 3.3 EBITDA index to 3.2 EBITDA. So, given the strategy of the company to increase the recurring income business which is a strategy that uses up a lot of capital, since these developments only start to generate cash after they are completed, we foresee or we have foreseen lately an increase in the net indebtedness to fulfill this company strategy.

On the other hand, we had been capable to advance in our accounts receivable in performing and providing the capital structure that is necessary to comply with other growth goals we have established. According to our priorities for the second quarter of 2013, something which is a consequence of what we've said, the earth movement works for the construction of the Catarina Executive Airport, we want to advance with the construction of the malls improved the profitability of existing shopping malls, considered the possibility of developing another mall connected to a subway station in Sao Paulo because this is a very successful project and start the construction work on Reserva I and II joining Cidade Jardim project, which are important to increase our revenues as well as launching of Bosque Cidade Jardim projects and deliver 11 towers launched in Horto Bela Vista project.

It's important to talk about our growth strategy and recurring income strategy. We are maintaining our real estate development activity at the levels we've mentioned maintaining a financial and operating discipline, so that we can have this growth in coming years in an organized and sustainable manner. According to a capital structure that is conservative and that enables us to go through any changes in revenues that may occur in the future.

These are the main points I had to highlight. I would like to thank you and open for any questions you may have. Thank you.

## Questions And Answers

### Operator

Thank you. We will now start the Q&A session. (Operator Instructions) Our first question comes from David Lawant from Itau BBA.

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## Q - David Lawant {BIO 16370172 <GO>}

Good morning, everyone. Thank you for very detailed information, the presentation as well as the release. That was very good. I would like to ask the question. First, could you tell us a bit -- give us an update on the market environment of your customers, being this is a market which is very different from other listed companies, given this worsening of the macroeconomic scenario we experienced recently, so what about these three projects you've launched in July? That would be very helpful.

And the second question is, I would like to know whether you could tell us a bit about the approval process for Reserva I and Reserva II projects. Yes, I know it's one of the priorities to start the construction work in 2013. So how is the approval process for these projects? Thank you.

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

Okay. The real estate development market what we have showed is that oftentimes since we don't launch many projects for year or we launch very specific projects, sometimes we see that a moment of the launch is an important event, especially in products that the market is short of. So, on one side, we see longer times -- the customers are taking longer to the side.

So, this purchase is something they think about more carefully or maybe due to the macroeconomic factors you've mentioned, but on the other hand, these developments we have usually have a very short number of project than this type of project -- product that the customers are looking for. So, we have been experiencing a reality in which -- when you are faced with projects or products that have a very strong intrinsic quality that should prevail when compared to the macroeconomic aspects; also because the purchase decision for these projects as in outlook are appreciation in value in the short, medium and long-term.

So, customers' decision to purchase is thinking about an investment that we would appreciate significantly in a very short period of time, which is an important decision that takes into account the quality of the products in future years. So, this is a factor that plays a very important role when analyzing our business. So, in terms of the -- we have felt a bit some effect on the decision-making process of our customers, but I believe this is not something that should prevail.

## A - Eduardo Silveira Camara {BIO 2074637 <GO>}

And this is Eduardo. Adding to what he said, something that works in our favor is that our customers have a very small dependence on income to make this purchase. The vast majority of our sales are paid with their existing funds where their own personal property or savings and although the macroeconomic environment here influences, this decision or expectation of improvement on the economy, we are not so vulnerable to the level of income to this assessment because that hasn't changed much.

Also, we -- the company vision is that obviously, if you commit to increase in the number of projects launched, that would be incompatible. If you have a good margin of

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development projects to maintain the margins that we prefer in the future years, we believe we still can do that on a sustainable manner, we will have products that are quite attractive at this volume for these customers.

So, our challenge, of course, is to have good products, attractive products that if the macroeconomic scenario is bit better or a bit worse, the products will make the difference. If we increase the volumes too much, that wouldn't be compatible with our strategy of quality as for the real estate development or rather be recurring income business and the approval of those two projects, we've had about two which is the multi-use building with some commercial area, offices and hotel. The approval project is quite advanced.

We have ended the most important step in that process and now, we foresee that it will be quickly released for construction work. We will be able to start off shortly, but it's still hard to talk about time, a time frame because this approval process has to be respected and it doesn't depend entirely on that and the company has to be prepared to start as soon as possible fulfilling all the stages that are necessary. So we are strongly dedicated to that topic and in our point of view the process growing smoothly.

**Q - David Lawant** {BIO 16370172 <GO>}

Thank you very much.

**Operator**

Next question comes from Gustavo from BTG Pactual. Mr. Gustavo, you may proceed.

**Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Good afternoon, I have two questions. The first one is about the airport. I would like to know how is the issue of asking -- or, are you looking for a partner to invest with you in the airport? Have negotiations developed with that regard? And there have been some articles published in the media about other airports with a similar executive aviation profile that have been approved around Sao Paulo area. Do you believe that this will have some impacts on your project, or does that somehow change your project? Do you need to review that, or everything remains the same? So that's the first question, regarding the airport.

Then the second question, giving this stronger disclosure, you had -- you made on the information about the shopping malls, not only as an owner of shopping malls, but also as a retailer, I would like to have your opinion on the retail activity in the second quarter, and what is your outlook for this retail area for this year? And what about this subway, such mall, that you're -- you said you're working on another mall, close, next to the subway station, probably with a similar profile to (inaudible) Mall. Could you give us a bit detail on that? Thank you.

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

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Okay. Well first about the airport, just the beginning of the announcement of this project JHSF envisaged the possibility of having a partner endeavor. We believe that this partner would be a financial partner with a minority interest. We've had some conversations about that, but we've also said that the beginning of the construction work are not linked to the capital structure.

So we are getting ready, so that once the permit to start construction is obtained, we can start it. And obviously, if we make an agreement with any shareholder, that could be done in any stage of the project. We don't need to establish this precisely right now. We have to look at it at a more strategic point of view, also considering good risk and return levels of the company that reduce to working with whenever we have an interface with investors.

For the market -- retail market question, we believe that Sao Paulo still have a very good outlook prospect. If you look at all the capitals, all of them have larger number of airports than those available in Sao Paulo. We've never based our investments in the airport business from the point of view of feasibility on the scenario that would be alone in this area because this is the competitive market and one -- since it's open for investment from JHSF, it's now also be open for investments from other companies.

What we believe is that there is a natural organization also given the division of air space that the city has implement this type of project. There will probably be some natural restrictions towards certain number of projects. So, there will be a limit to the number of projects that will be allowed. And we don't think that will alone in this type of project. When we look at other international scenario for example, this competition exists, this is -- are natural and it's profitable for a certain number of airports.

As for the Shopping Metro project, a rationale for that is that this a segment in which we have a know-how. This project is one that we've had the bidding process already. (inaudible) has contacted the company has won the bidding process, and we would have a project with a profitability level compatible with prior projects we've had in the area.

**Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Okay. Just one more question. Is there a timeframe to define that? Like, how would be the mall, or what are the negotiation terms, anything like that?

**A - Andre Luis Rodrigues** {BIO 17964192 <GO>}

Well the terms are pretty much the same, but the timing for implementation is a bit more complicated to talk about right now. What we have analyzed in this type of projects is whether they will be good, efficient and profitable when ready, rather than gaining too much speed on the implementation phase. So as soon as we have more clear data, we will disclose them on a timely manner.

**Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Okay. Thank you very much. Good afternoon.

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## Operator

The next question comes from Alan Nicola from Bradesco BBl.

### Q - Alan Nicola {BIO 18857961 <GO>}

Good afternoon. I have three quick questions. Going back to the airport budget, I know that the grand plan has been approved. I would like to know whether -- is there any additional stage and regulation terms, or if it's just the environmental permit that's pending?

Also, the second question, it's about the fund. There was a placement below the initial levels. I would like to know whether the placement will continue, or whether if this operation will be closed. If the plan -- if the fund closes, is there any other transaction planned? How would that project be? Also, if there is a higher income tax rate, what would be the effect on this project? Thank you.

### A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Okay. With regards to the fund, there has been -- this week has been a typical because although we had a complicated market move, the placement was good. And this transaction has been closed, but the fund, as we have new demand will be able to reopen it and keep with our original strategy.

Technically speaking, I don't know if the term is to reopen the fund or it's having a capital increase or a new issue. I am not sure about the legal terms, but the strategy to continue with the strategy that was designed, which is to bring investors and capital to this development project.

Okay. Well about the airport, environmental part is in the final stages. Once that is obtained we will ready to start the construction and even the environmental part has several stages. We have the (inaudible) study already completed, the public hearing has been conducted. I won't take -- it's a long topic, I won't take very long to talk about all the stages, but in terms of the stages that a project like that has to fulfill we are quite advanced.

### Q - Alan Nicola {BIO 18857961 <GO>}

Okay. Thank you.

### A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hello. As through the income tax, we will analyze specifically that in order to give you a more detailed explanation through the investor relations area about the impacts on that. But if I had to comment that on general terms, I think that would be characteristic of the composition of the income revenue, whereas the real estate revenue in which real estate has revenue, has specific characteristic, given the essential tax regime, which is not present in the recurring income. But, we can give you more detailed expiation through the IR segment.

## Operator

Thank you. (Operator Instructions). We now end the Q&A session. I would now like to pass the floor to Mr. Jose Auriemo Neto for final remarks.

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

We thank you for attending the call and our team remains available in case you have any more -- any specific questions. Please send it to the Investor Relations area. Thank you very much.

## Operator

The conference call JHSF Participacoes has now ended. We thank you very much for attending and have a good afternoon.

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