

Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Kamila Oliveira
- Luiz Mauricio Garcia

Presentation

Operator

Good afternoon. Welcome to the Teleconference of JHSF Participacoes about the earnings of the first quarter '19. We have here with us Mr.Thiago Alonso de Oliveira, CEO and Investor Relations Officer; and Mara Boaventura Dias, Investors Relations Manager. We would like to inform you that the presentation is being recorded and all participants will be hearing during listen-mode only.

(Operator Instructions) This event is also being broadcast simultaneously via webcast and it may be accessed in the Investor Relations website of JHSF on the address ri.jhsf.com.br and to platforms MCIQ, where the presentation is also available for download. Before we move on, we would like to say that forward-looking statements are based on the beliefs and assumptions of JHSF's management and any information currently available to the company.

They involve risks and uncertainties, because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors and Analysts should understand that conditions related to macroeconomic conditions -- industry. And other factors could also cause results to differ materially from those expressed in such forward-looking statements. I would like now hand it over to Mr.Thiago Oliveira, who's going to start his presentation.

Please you can move on, sir.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon to all participants of our teleconference of earnings release. Thank you very much for your participation. As we normally do, we are going to start this presentation and then open for Q&A (Operator Instructions).

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I'll move you all to Slide 3, Notes of the Board of Directors. I would like to share with you four key messages before we go into specific figures of the first quarter '19. The first message is that all businesses are healthy. They have performed quite well in recent quarters and they have very positive perspectives.

Of course, there are challenges, but the teams that are heading this businesses and the operations of the businesses have been working very hard to bring positive performance, and this is what we have been observing quarter after quarter. My second message is that the first quarter tends to be very subject to seasonality and it's probably the one that has the least activity. It is characterized due to three main factors. First of all, it's secured till which we have no commemorative dates, such as the next weekend with Mother's Day in Brazil, it is a period during which we have summer holidays, summer vacation times.

So it's kind of a different routine to restaurants and also to real estate development, and this year during the first quarter we also have Carnival with seems to perpetuate the effect of the summer vacation. Thirdly, during the first quarter of '19, there were a number of events, they are non-recurring events which have impact to R\$19 million on our profit before taxes. In other words, it could have been higher, shouldn't it be for the fact that using resources that had been gathered through the period, we have had early repayment of debt, and as such anticipating the payment off commissions based on the profit. During the first quarter, we have also sold some shares of our real estate trust funds that were close to 102 when we first sold them.

We have also had some market-to-market effects of part of our accounts receivables. And finally, one store -- one retail store was closed. None of the events will be repeated in the upcoming quarter. The fourth message that I would like to make is that the company still has a huge asset to be developed by improving the conditions, the overall economic conditions in Brazil.

Thanks to more economic stability, we have made the decision to resume growth, and I would like to let you know what are the key main drivers of the growth. First, resuming our launches in the real estate developing business, these new launches will be in pieces of lands that we already have purchased. So we won't have to invest any money in buying land. And in those where we need further development, we already have that.

Secondly, in terms of growth, we are going to expand shopping malls. For the past years, we have sold some of the minority interest in shopping malls, but we've maintained the control and management control of most of them, and now we can see a positive cycle again to expand in this area. We are going to start with Cidade Jardim Shops, followed by the expansion of Catarina Fashion Outlet. The third area for growth is the airport.

The airport is a project who's the construction is coming to its closing months. Last weekend, I visited the working site and the tarmac and runway almost finished. Two hangers are finishing construction. And once we complete that, we will start the process of confirmation and authorization of the airport.

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So most probably, the airport will be open in the second part of the year. The fourth area of growth for JHSF is in the activities of logistic, warehouse spaces in areas around the airport. Once again, lands that we have already purchased part of our assets and equity and the increasing demand for storage and warehousing area indicates that it's time to invest in building these facilities. And finally, but not -- it's important.

We are focusing on promoting internationalization of brand Fasano. And all of those who have been observing our movement know how important the brand is, and we really think that making the product present in some large cities abroad will certainly help us expand this part of our businesses. After this introduction, I would like to guide you to slide 4. I'm going very briefly to go over consolidated results.

Our net revenue grew 50.5%, the same level of growth of gross profit. We've also had an increase of EBITDA of 41%. And the financial result had 25% decrease, but within it there is the impact of the BRL19 million that I have already alluded to in the introduction. Net income of the company, we went from minus BRL16 million in the first Q '18 over BRL16 million plus in the first quarter '19.

Now slide 5. Let's look closer to shopping malls. 14% growth in sales in our shopping malls showing that we have a focused position -- focused on mean and high income groups have proved to be correct. Because this part of the population still has purchasing power.

Operating indicators, all of them range from 7 -- 5.5 to 7, SSS, SAS, SSR and SAR And I think we are going to have one more quarter where we'll be best in class in all these operating indicators, confirming the market position that we have. And roughly we have observed an increase of almost 1 percentage point in occupancy rate. And it is very much associated with reduction of vacancy in the shopping mall we have in the city of Manaus. All indicators are very robust, as you can see, as it has been the case for the past quarters.

Let me now go into the next slide, slide 6, where we've hotels and restaurants. Average daily rate increased 14%, very much aligned with the growth we've observed in sales of shopping malls as well. RevPAR increased 8%. Now looking the average checks and number of meals served 35% increase, which is a wonderful figure.

We know it's not easy to grow in Brazil especially with significant numbers. What seems to be not a very good news is the average check amount, but it shows that the hotels are more -- have a higher occupancy rate, the average check of breakfast is lower than lunch or dinner, and this is why it goes down. So, please do not see there is number as nothing but good news. In terms of gross revenue, we can see a very good balance between restaurants and hotels, 50-50 so to speak.

Next slide, I'll tell you about real estate development performance. Contracted sales we see BRL7.5 million and BRL4.1 million, and it's highlighted because these are two inventories that we've been selling with prices very similar to the original costs. The good news is both of them are very close to being completed and the strategy that we have adopted have provided a sale of inventory generating cash through the company. When

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we look contracted sales we have 621% as opposed to last year, confirming what we have observed in recent quarter change that our commercial activities in real estate development has really performed well.

Low interest rates and good indicators of consumers have supported this tail event and the tail sales that we have observed in our performance of real estate development. It all impact our EBITDA 100% over 1Q '18. Between gross revenue and EBITDA we can see the effects of sales of products with margins very close to 0, and some costs that were entered in and accounted for in this quarter because of some projects that have been finally delivered. Finally, next page, we can see some recent pictures of the Executive Airport.

I'll say that the pictures today would be even more developed than what we see here. The message to all of you, and I have anticipated that saying that we are very close to our completion, and once we've finished the construction, we can grow into the process of authorization of the effort. We expect up to 120 days duration for the whole process of recognition, accreditation and approval of the airport, and once we have that, will start operating. The operations, at first will be done in two hangers, 6,000 square meter of constructed hangers and these are the pictures you can see, an addition to over 1,800 square meters of patios.

So this is the message on page 8. So, let's go now into page 9, and here we can see our gross growth and net debt. We are working with in EBITDA for net debt of 3.8 times, which according to the cost and market parameters seems to be quite good for the company. Here, last chart, we can see a little bit of the breakdown of our graph that, and what we had last year minus gross margin and last short-term requirement.

So, speaking about debt, we have already started our process that is repositioning the remaining debts we have, and we are going to do that in longer terms reducing spread because of improved risk profile that we have compared to previous years. Now let's go into page 10. On April 11, we shared the dividend BRL61 million. For the shareholders, once we've provided the results of 2018, it was a yield of 6.1%, very close to 100% of CDI And not only that.

Those shareholders who have been with us throughout the whole year of '18 have seen the capital market value go from -- go up 558%. Before we open for questions and answers, I would like to conclude by emphasizing my initial messages. All businesses are healthy and with positive prospects. We should take into consideration seasonality in the quarter.

There have been some non-recurring events that impacted our first quarter '19. And finally, a very important piece of information to our internal and external audience is that the company is resuming actions towards growing its businesses. I would like now to hand it back to the operator so that we can open for the Q&A session. Thank you.

(Question And Answer)

Operator

Thank you very much. Let's now start our Q&A session. (Operator Instructions) Our first question comes from Kamila Oliveira, Banco Do Brasil.

Kamila Oliveira {BIO 20040533 <GO>}

Good afternoon, everyone.

Wow, congrats on the excellent results. And I have two points that I would like for the clarification. First, what's your -- what are your comments about e-commerce? Have you had an increase in sales of those stores retailers? And secondly, what about partnerships between companies and delivery companies? Have you been working towards that for your portfolio? Thank you very much.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Hi, Kamila.

Thank you for your two questions. Concerning the first one, whether we've noticed an increase in sales, of the answer is yes. We created the e-commerce too to bring further flexibility to consumers and at the same time to open sale channel to retailers. And as the two gets more and more used, we have noticed better sales index.

And there is an interesting phenomenon going on, because some specific actions of companies which are not in our shopping malls, they've been reaching us, because they would like to use our e-commerce platform to favor and to provide distribution of products and services. We have expected some of them. Been very selective. And I mean, provided that there is no competition to the shopping malls and the results so far have been quite good so much so that most of these situations are already in place.

So launch we made six months ago and now we can have a larger volume of information. So, we know about users' profile. We have a number of indicators, and we want to keep on growing first basis, and it will be possible also to develop new products or new solutions using more intelligence once we know more about the consumption profiles. Secondly, the partnership with some delivery and distribution companies, we have already closed some partnerships.

Maybe we haven't advertised it so much. Some of them are still pilot projects, some worked well and others did not work that well. E-commerce has always been a tool to make the consumer's life easier and at the same time speed up inventory turns of our retailers. After we test the partners, if we want to go into something more robust of an agreement, we will share with you.

As we have always done, really telling you what we are doing our pilot projects, if I may recall an operation that we had in the end of last year, with a German automobile brand,

they promoted their cars, and during December, deliveries in our e-commerce sales were just carried by the fancy sedan car. Well, hope I have answered your question.

Kamila Oliveira {BIO 20040533 <GO>}

Yes, you have. Thank you.

Operator

Our next question comes from Lucas [ph], Bradesco.

Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good afternoon. This is Mauricio. I have a question about houses for sale.

What is your project? How is it going? You saw -- you've told us about bringing in an Investor partner. Is it something that you expect to happen in the short term? Or is it something for mid and long term?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Thank you for the question. Right now, in considering the current status of the country, we will follow the traditional model of development rather than residential applications. Of course, we have enclosed our page and this is still a possibility on vertigo, but observing the market, and for those of you who follow online media, there are some news reporting the strong growth of these activities among the high-income groups and increase -- or high prices product.

So this is we've been observing and we still think about a real estate development rather than just regular sales for high income.

Luiz Mauricio Garcia {BIO 17432519 <GO>}

So all the development you were doing for Fazenda Boa Vista, it's more for sales and not for rental purposes, is that so?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Exactly. Exactly, you got. It's right.

Having alternatives or having options to follow one or the other model is something very positive, much better than not having options. As we are calculating return on invested capital, what makes more sense now is the so-called traditional model than rental or income-generation model. Thank you.

Operator

(Operator Instructions).

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

While we are waiting for questions, let me read some of the questions asked by the web cast. The first one by Ramon Vieira, XL Capital. The question is the following. Good afternoon.

Last week, Beaumont opened its first store in the country in shopping mall Cidade Jardim do we expect the opening of more stores? Yes, Ramon. We've been working with some other brands. And we expect to have some new shop opened throughout the year of '19. We strongly believe that bringing new products to shop Cidade Jardim is a way to expand the experience and improved the experience of users and consumers, exposing them to new products and brands which haven't been sold in Brazil yet.

There is another question here in the webcast. It is a question concerning the variation of our net debt fourth quarter '18 over first quarter '19. It is a question of (inaudible). The main item of the variation is paying dividends of almost BRL61.5 million as I've just reported to you.

There is another question by (inaudible) I would like to have some technical understanding about operating expenses focusing on SG&A expenses or other operating results. Well, I think it would be easier to give you a brief answer and then suggest the detailed reading of expenditure notes, where you have after too many more details. These administrative expenses and any of them, if anything does not match these groups, are then considered under the line of others and it applies to revenues and expenses. As I've pointed out, in the first quarter '19, there were many non-recurring events, closure of stores, market-to-market of accounts receivables and some other issues that were accounted for as others no-operating expenses perspective.

Another question by (inaudible) And I apologize if I haven't pronounce your name accordingly, from RTI Vertex [ph]. Good afternoon. In the last call we heard that May would be the visit or -- in the airport. May, was amount, depending on rainfall, we would expect to have the construction finished.

However, end of summer it was a very rainy season. This year we use heavy machine. And when it's raining, we cannot carry on with the construction. So, I would just emphasize what I've just said.

We are probably going to have the construction completed by the beginning of the next six months and then we are going to start with the visits and all the approval procedures. So things are moving on, as expected depending also on the weather conditions. But I have to emphasize that we have almost come to the closure of our construction. So these were the questions from the webcast.

Let's see if there are any questions with our operator.

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Operator

(Operator Instructions) We would like now to close the Q&A session. Let me hand it back to Mr.Thiago Oliveira for his closing remarks.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Let me thanks all the employees, all the workers of the company, people who have been helping us deliver the results that you have observed in the last quarter, and all of you who have spent the past hour with us to understand the performance of our businesses.

Myarra lthia [ph] with us to support you providing any further clarification or answers to your questions about the results of the first quarter '19. Thank you all very much. And have a nice afternoon.

Operator

Our teleconference for JHSF is now closed.

We would like to thank you all for your participation. Have a good afternoon. Thank you.

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