

Q2 2018 Earnings Call

Company Participants

- Thiago Alonso de Oliveira, CEO and Investor Relations Director

Other Participants

- Georgia Jorge, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon. We welcome you to JHSF teleconference to discuss financial results of the second quarter 2018. With us today, we have Mr. Thiago Alonso de Oliveira, CEO and Investor Relations Director; and Mara Boaventura Dias, IR Manager. This event is being recorded and all participants will only listen to the audio conference during the company's presentation. We will then start the Q&A session, when more instructions will be provided in case you need any assistance during the audio conference. (Operator Instructions). This event is also being transmitted simultaneously via webcast. It may be accessed at ri.jhsf.com.br and also at DMZIQ [ph] platform where the respective presentation is available.

Before we move, we would like to clarify that any forward-looking statements made during this audio conference regarding the perspective of business forecast and operational and financial targets of JHSF are based on management's expectations for the future of the company as well as on information currently available. These forward-looking statements are not a guarantee of performance since they involve risks, uncertainties and premises, and are based on operational factors that may affect the future performance of JHSF leading to results that are materially different.

And we would now like to turn over to Mr. Thiago Oliveira, who will start the presentation. Mr. Oliveira, please proceed.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon everyone. I welcome you to the teleconference and I would like to start our conversation today based on page 3 of our presentation to briefly contextualize. I would like to say that in the second quarter, we had the World Cup, the truck drivers strike and also we had a third event, which was the increase in the dollar rate when compared to the real.

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I would like to mention this as we open this conference because despite these three events, which had a very negative effect for many other companies, even though we fell [ph] to these effects, they were not enough to prevent our growth when compared to the second quarter last year, which is a quarter where you probably remember, it was favorite with the money that came in from JHSF [ph] economy and so we will share with you the results of JHSF and throughout the presentation we're going to detail them to provide more light, more information on the businesses and our consolidated results.

So our net revenue increased 17.6% when compared to last year. The gross profit also had an expressive growth in the order of 12% and according to what we've been doing for a while now with a lot of discipline regarding expenses, we had a reduction of almost 30% in the total amount of operating expenses. This combination of increase in gross profit and an expense decrease led to a 61.1% improvement in our EBITDA. Not only nominally, we had also an improvement in EBITDA margin when compared to the same period last year.

Taking to account that we had an expenses improvement in the net income, which wasn't bigger just because of the exchange rates and we lost about BRL7 million, our net income increased 77% when compared to the same period last year and that's why we're so happy with our results. Now, in terms of the shopping malls, we had in this quarter -- and as I mentioned before with the World Cup and the strike and everything, we still had a growth of 5.4% in retailer sales, the largest in the sector. All of our operating indicators increased and we have a highlight for the R [ph] indicators in the order of 4.5% to 5%.

Our occupancy rate also improved. Our indicators have evolved and improved quarter after quarter and they are reaching 95%. With that we were able to once again deliver occupancy rate improvements and another indicator where the company has done really well, when compared to the market. So, it is from this combination of factors that we corroborate our satisfaction with the results for the second quarter.

And now moving on to page 4. We are consolidating some indicators. Our gross revenue could have been better in terms of growth. We have an increase of 16% and I would like to highlight here that despite the World Cup, the strike and some other aspects that we had in Rio de Janeiro in the area of restaurants, these were factors that would have enabled us to have a greater increase, and so in the area of restaurants, we had an increase in variable costs and they have to do with discontinuation of supply and therefore we had to work with more expensive raw materials for some weeks in the second quarter. And despite all these factors, we still had an improvement to about BRL46 million, an evolution -- an improvement in almost all of our businesses unit and therefore you can see these positive results.

And now on page 5, when we analyze the consolidated financial results, we can see a reduction of our net financial result of 30%. Within this BRL31 million we had in the second quarter, we had the effect of the BRL6 million last with the dollar range. We have a lot of indicators that are affected by the exchange rate driven finally, when we have evaluate the consolidated net income, we had an increase of 77.4%. So when we are trying to compare the results -- so last year results, we can say that we're doing much better and

we're able to overcome the effects of the exchange rate of the World Cup and the truck strike.

On page 6, we get into the details of the indicators I have already mentioned, our sales for the quarter in the order of 49 increased to BRL516 million. And I would like to highlight here that the strike days and the World Cup days had an effect in terms of volume in the malls and had it not mean for these factors, we would probably have had even better indicators among the operating indicators.

We have the -- our indicators at good levels. We have taken some measures for aiming at renewal, which have benefited the company or we renewed or replaced some areas where we had fixed rents or variable rents. In terms of cost, we had a rationalization of cost structures and our business per -- by the occupancy cost and rates. So, we had good results for our shopping mall in Manaus, which is a mall that has some vacancy that we have to work with.

Having said that, I would like to go to the next page. On the 16th, next week, we're going to inaugurate extension number 2 of Catarina Fashion Outlet. This was -- the construction was concluded in February, those stores have been delivered to the retailers and we're going to have an inauguration with 100% of lease. And so on the 16th, we're going to inaugurate this area of approximately 5,000 square meters of GLA and with that we conclude to the first step of the Catarina Fashion Outlet, which has almost 30 square meters. And we are very happy with it in the last four years.

On page 8, I would like to share with you our digital platform, which is ready. It's been tested [ph] now and confirmed with the retailers, which will be connected with this platform. Our expectation is that it will be launched in Q4. This platform is aimed at being an additional sales channel for our malls providing a channel solution with the Cidade Jardim [ph] digital brand. As soon as we have more information about the launching date, we will inform to the market.

And now moving on to page number 9, I have a comment about the performance of hotels and restaurants. We can see here that all of the operating indicators improved. These improvements could have been better, had it not been for the effects I have already mentioned, that's the World Cup, the strike and also some specific situations that we identified in Rio. And, so we're very happy with these numbers and have very good expectations to improve our operating results and Rio's operation as a function of some measures that we implemented in the beginning of Q3 and we expect to see the results over the next half of the year.

On page 10, we have the real estate development performance, our contracted sales increased to 48%. Our gross revenue increased to 50% and this was the result of a combination in environment where distress level is at reasonable levels with favorable interest rates and the real estate market and we can see this growth because the company now has excellent inventory and products. And so even though, the -- we started making environment improved all (inaudible), we had this performance in terms of results and we're very happy actually with our progress. And part of it has to do with a

launching we had and is shown here on page 11, the new projects, the Sports Houses project. We have 30 units for sale and the market price is of about BRL5 million.

There are two different sizes and that's why we say that the value is approximately BRL5 million. It is a project which is located in a sports complex, which is being formatted inside Boa Vista farm especially about the sports people, who are more enthusiastic about Triathlon, so we have swimming, cycling and running possibilities and saw the future owners of these sports have -- will be able to use the infrastructure already available in Boa Vista and so this project also helped us have this better result in the second quarter.

On page 12, our last page, and after that we're going to have our Q&A session. We are presenting the reduction of the company's indebtedness. We have come to a situation at the end of June where we had a net debt of BRL1.100 billion and this is a net amount because the transaction for the sales in shopping malls, which will bring our net debt to about BRL500 million. And once we make this adjustment of our net debt and also the EBITDA [ph] amount, which is been sold to the mall and to the expansion of the Catarina Outlet and the expansion of the mall, we consider that we're going to have a leverage level taking to account to the cash generation of these expansions, we will have an EBITDA indicator for our net debt close to 3 times.

In terms of duration, we worked harder, at the end of last year our duration is adequate for the size of our debt today. Once, we conclude this transaction, we're going to have an adjustment of the capital structure taking into account the debts.

With this I conclude my presentation, but I'm available to answer eventual question.

Questions And Answers

Operator

Thank you very much. We're now going to start the Q&A session. (Operator Instructions). Roberto (inaudible) Bradesco [ph].

Q - Unidentified Participant

Thiago, first of all thank you for the call. I have two questions, the first one of them has to do with the airport. I would like to know if you intend to inaugurate it in the second half of this year and if you could talk a little bit about your projections, if you have an idea of how this will impact you as a whole? And another question, actually, it's more of the comment. I would like you to comment a little bit more about to this deal and new things, I know that you had a renegotiation? And this is it. Thank you very much.

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

Well, thank you for your question Roberto. I'm going to start answering the question about the airport. We have an expectation to have the construction concluded by the end of the year and if any of you in the call are interested in following up, you could contact us later on. We do have some movies available, we can send you the links. But essentially the

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most relevant part of the construction has already been concluded. We already have -- we have already paid the area and in parallel we have the construction of the Yard and Hanger. And since you talked about the airports, I would also like to comment with you that in the same area of the airport, we are developing a logistics center, where we are planning to build storage areas and lease these storage areas. And so this area close to the airport is an area of about 2 million square meters of land and since you use 60% of the area, we can have over 1 million square meter of storage area.

With that we will have a multi-model combination that may or not benefit from the airports location and runway. We -- one hour from Sao Paulo, one hour from the road range and the runway is 2,000 meters long. With that we might have a solution for loads that must reach their destination quickly and that would be a good option for operators in the commerce area. Now regarding transactions with XP, we had a round of negotiations after signing first agreements with them. It resulted in some adjustments regarding the transactions that had been dealt initially and we have a different amount when we compare the previous transaction and the latest transaction. I have to respect the flow, that the fund has to follow, but between JHSF, the manager and XP Investments, each one of us are trying to do our part, so that we would each pay part of this difference in the amounts in what I can tell you is that in terms of net impacts for the company, it is not significant regarding the previous transaction.

In the meantime, today we have a binding transaction and now along with XP Investments and the fund manager, we're in the process of establishing the funding, which results from a combination between the issuing of new product and securitization receivables. So that we can we can have the BRL641 millions, which is the amount of the transaction for us.

Q - Unidentified Participant

Well, thank you very much. It was very clear.

Operator

Our next question comes from Georgia Jorge from Brazil Bank.

Q - Georgia Jorge {BIO 20104788 <GO>}

Could you tell us the details of the cost of negotiations with the energy and if you expect it to be retiring in the next half or whether it was only a one-time event?

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

Well, Georgia thank you for your question. I'm going to have to expand my answer keeping in mind that some people are in the call and are not familiar with this. JHSF has a (inaudible) company, which sells energy. There was a good growth in terms of volume, when we compare the second quarter last year and that led us to more sales of electricity, but we also had to buy more.

The operational margins are lower in the energy sector, then when compared to the malls and because in our consolidation we consolidated these two activities in the mall

business. This leads to a growth in the growth revenue and so it is a possibility for us to show that there is profitability associated to this business. However, because the margin is lower, this ends up diluting the margins.

So what we can say is that the mall segment improved, we grew, we had an increase in the margins and as the sales also will increase and we also had an increase in the margins, but when we analyze the size of the revenue in the sales, we can see that there was a growth, but the cost also increased and with that we have a lower gross margin when we compare one quarter to the other because of the commercialization of volume, but I would like to say is that it is a profitable business for the company.

Operator

We received a question via webcast from Ramon Viera [ph]. He says, good afternoon, JHSF. My question is, what were the specific problems you had in reused restaurants and what measures were taken? Thank you.

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

Well Ramon, thank you for your question. What we observed Rio de Janeiro is an opportunity to rationalize the expense structure we have there and this is according to some bench marking. And we still see some opportunities to have more efficient costs. Actually we observed a few things that have to be pursued in terms of our effectiveness and these actions were implemented in July. Now, regarding specific effects we had there, but not only there also in Sao Paulo, during the truck drivers strike, there was a rupture in the supply of some types of foods, especially fresh foods, and so because we do not want or have an impact on the quality of what we offer to our clients, we ended up having to find alternative supply. When we did that the costs were higher than what we found before and higher than what happened after the supply went back to normal. These are the things we wanted to mention when we talked about Rio de Janeiro more specifically.

Operator

(Operator Instructions). We now end our Q&A session. I would like to turn over to Mr. Thiago Oliveira for his final consideration.

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

Thank you very much. Thank you for those who have participated in our teleconference. The IR area of JHSF is available to answer eventual questions. We would like to thank the whole team that was dedicated to concluding this report and thank you very much.

Operator

JHSF Participacoes teleconference is now over. I would like to thank you all for your participation and have a wonderful afternoon.

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