

Y 2016 Earnings Call

Company Participants

- Eduardo Camara, Chief Executive Officer
- Thiago Alonso de Oliveira, Chief Financial Officer and Head of Investor Relations

Other Participants

- Andre Mazini, Analyst

Presentation

Operator

Good afternoon, and welcome to JHSF Conference Call regarding the Fourth Quarter and Year of 2016. Today, with us, we have Mr. Eduardo Camara, CEO; and Thiago Alonso de Oliveira, Director of Relations with Investors and CFO. This presentation will be recorded, and all participants will be on listen-only mode during the Company's presentation. Then we will start the Q&A session, where further instructions will be provided.

(Operator Instructions) This event is also being transmitted simultaneously via webcast and can be accessed through JHSF's Investors Relation website at ri.jhsf.com.br and the Engage-X platform where the presentation is also available for download.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call regarding business prospects, projections, and operational and financial goals of JHSF are beliefs and assumptions of the Company's Board of Directors, as well as information currently available. They involve risks and uncertainties since they refer to future events and, therefore, depend on circumstances that may or may not occur. Changes in macroeconomic policy or in legislation and other operating factors may affect the future performance of JHSF, and results may differ materially from those expressed in such considerations.

Now, we would like to give the floor to Mr. Eduardo Camara who will start the presentation. Mr. Eduardo, you may proceed.

Eduardo Camara {BIO 2074637 <GO>}

Good afternoon for everyone. I thank everybody for your participation in this conference. We are very satisfied with the performance of the year. It was a very harsh year, marked by one-off events with asset sales. We -- these asset sales became accounting adjustments that will be explained during our results session.

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Nevertheless, it was a very important strategic movement in the Company that gave us relevant cash flow due to accounting adjustments. But from the accounting point of view, this impacted our accounting cancellations also that were very specific situations.

One of them was an old matter from the past quarter when one of our investors -- as they could no longer proceed with their payment -- they carried out cancellations and provisions regarding Bosque Cidade Jardim that is something that happened because of the embargo that we have observed for past years, delaying also this project. We are totally reassured that this will revert a bit. So regarding our customers, in a moment, where something that we are reassured. And so, the decision was to create agreement with customers, also returning the amount that they had invested. Although this is in some -- in some occasions, it's not a cancellation. But the cash impact is reduced, and something that we will see in the future.

Now, regarding strategic financial movement. A relevant drop in our indebtedness. When this is done, there are anticipated costs, there are spreads that are temporarily a bit elevated. And in the general calculation throughout 2016, there was a negative impact. But I repeat, we started the year 2017 with an extremely robust position that extremely reduced with important strategic movements that were concluded.

By the end of 2016, from the operating point of view, our recurring income area presented in shopping centers indicated that we are very positive, be it in discount or regarding delinquency or regarding sales. The restaurants and hotels also were very important -- and we will mention this -- and developments. I anticipated myself when I was explaining both sides of the coin all the one-off events that impacted the results of the year.

And I believe that from the strategic point of view, in a nutshell, what has been mentioned in other locations and what I already mentioned, was a better capital structure that maintained core relevant assets of the Company with potential to grow. And in a timely and adequate moment from the macroeconomic point of view, market situations and capital structuring allow us to carry out important investments that will represent growth in our company's activities.

Now, to talk about our results, I would give the floor to Thiago so that he can share with us in details the good news from 2016. And we are very happy because of this good news.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Thank you very much, Eduardo. Could you please go to page four? In this page, I tried to break out our financial situation and to see the specific impact of each one of the transactions that were carried out of 2016. It was not a very common year for the Company in terms of transactions. So I believe this deserves some time to pay attention.

Point number one is the sale of international assets. It generated an accounting income of 134 million and the total cash flow of \$35 million. This is practically a cash flow generation

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very close to what we had. And when we closed the operation, the exchange rate was 4, and it wasn't 3.23, 3.30 like it is today.

Two, the sale of participation in shopping malls. One transaction was the sale of Metro Norte Company, is the entity that controls the Metro Tucuruvi. In this transaction, we had an accounting loss of 200 million, and we also carried out a transaction of one-third of the sale of shopping Cidade Jardim, and there was an 87 million between Tucuruvi and Cidade Jardim. Our result was impacted in 116 million. These two transition had important cash generation for the Company within the year 2016, this 787 million of cash flow generation that we were available to attain with this transaction. And although shopping Tucuruvi impacted a loss in our results. The return over our investment was 194%, almost 195% of return over equity. This effect, as we are trying to show you, it is a bad effect, but positive for cash generation.

Now, when we go to cancellations and provisions for cancellation, throughout the year, we had an accounting loss in terms of bottom line of BRL117 million and use of cash of BRL26 million.

The last item that I would like to mention would be, yes, financial result in the year of 2017. It is impacted by the reduction of capitalization in projects. So as the Company has less projects, it uses less interest rates. And therefore, we also realized in advance the amortization of financial expenses. And this is the financial expenses of spreads that were paid in past years. So we have accelerated this effect, and this is a result of the environment -- the financial environment in the country.

So last year, we worked with a higher spread than our normal -- and higher than the ones that we have today. But this is something that I will mention afterwards only regarding the reduction of interest rate, capitalization. Here we're talking about an incremental accounting loss of BRL50 million, and this did not represent any type of use of cash.

When we go to slide number five, now, very briefly, we will see some indicators. We can realize that there has been a drop of gross revenue throughout the year in comparison to 2015. Most of this drop is a result of the impacts that we suffered between cancellations, both in Fazenda Boa Vista. During two quarters, we presented a cancellation of an investor. They weren't able to proceed with their project. Therefore, there was a cancellation. And now, during the fourth quarter, the recognition of accounting effects regarding these cancellation in the operation of Bosque Cidade Jardim.

Now, what we have here is the contract that we have with our customers doesn't say that we have a cancellation operation. And, yes, this was an agreement that was signed with our customers so they could feel reassured when it came to investing in a project that has been embargoed. When we see the year, an adjusted EBITDA, an increase of 14%. The financial result had 75% more impact because here we have 50 million of interest rates towards project. And this was recognized in advance. Therefore, the financial result did not represent to us a different cash effect from what we had in former years.

And when we see the net income, we can also see an important variation from last year to this year. And last year, you have to remember that we had very relevant impacts of appreciation of properties for investment although we recognized that this year the value is not the same. Well, above this, we have here the impact from the sale of Metro -- Shopping Metro Tucuruvi and the effects of the cancellation, Bosque Cidade Jardim.

So I would like to also break out the operating results. And here, I would like to show the results that have been presented. We will start with recurring income. We are very happy. Although 2016 was a difficult year, the store owners, the tenants that work with us, they were able to -- they went from BRL1.7 million to BRL1.9 million.

Now, when we see the gross revenue of the Company also increased in this adverse business environment. We are also highly satisfied with what we have been able to achieve in terms of businesses throughout the year, in terms of occupancy cost. Well, it's stable year-on-year and quarter-after-quarter. Here, we have already mentioned for some time that we have had recurring effect for -- so when we see the occupancy costs, stable customers, selling more, and the Company with greater gross revenue, this is a win-win situation. The tenant is winning, the Company is winning with the growing revenue.

And here, we have occupancy cost that is very balanced. So we can see that there is a win-win between us and the tenants. And here, on the lower right hand side, the least area, well, the -- indicated with slightly below, that's last year. Here, what is isolated here is the Ponta Negra Shopping in the city of Manaus. For those that have been following this up closely, well, this shopping underwent a mix improvement through 2015. The market as a whole, I believe it's a bit more difficult than we managed -- imagined that it would be. And today, results -- well, this shopping presents more vacancies than what we expected.

On the other hand, Shopping Cidade Jardim and Shopping Catarina have zero vacancies right now. We believe that we are very pleased with what these two products are offering. And we can see that these products stand out in terms of performance.

Now, when we go to page number seven, here there are other reasons why we are very pleased with the performance with our shopping area. We saw around 21% of tenants dropping discounts. During the same period, we are reducing nominal discounts 23.4% within the year. And we were even able to reduce net delinquency at 11.7. Shopping selling more, tenants that are happier, less discount, and this represents greater income for the Company. And lower delinquency means greater cash generation for the Company. So not only to take advantage of this moment to show you what is happening but also to congratulate the team that works seven days a week so that shopping malls are a pleasant thing for our clients and tenants.

Now on page number eight, we will talk about the performance of hotels and restaurants. Throughout last year, we saw the daily average of growth growing 16%, 17%. I believe that this is a very healthy indicator, mainly because of the realization of 2016 in terms of performance. This drove this indicator. Our RevPAR has grown 12%. And although at the end of the year there was a drop of 3 occupancy rate, there was a drop of 3.6% because of occupancy rate. So hotel business was very healthy throughout last year.

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On the lower part of this page, we can see a drop insignificant of 0.7% on the amount of couverts. And at the same time, we grew the average couvert at 5%. So our share -- we would like to think the Fasano team for all of the effort that they made throughout the year in order to deliver these good results.

Now, when we go to our next page -- we're on page nine. And here, we can see the performance of our real estate development. We can see that there has been a lot of volatility in terms of contracted sales from Fazenda Boa Vista, what is something on the fourth quarter. We accounted all these cancellations. And we can also see a relevant negative number from Bosque Cidade Jardim. And this has been accounted, and it's considered a cancellation. So what we are seeing here is that from last year in terms of 80 million in sales, and this year, we had a negative sale of 95 million. So this is the effect. So it's over BRL160 million, which is the factor that impacted the bottom line of JHSF.

When we see the area of real estate development and when we see Horto Bela Vista, we didn't have much stock. Bosque Cidade Jardim, it only appears here when our desembargo issue is resolved. And Fazenda Boa Vista, we expect to see recoveries in a more accelerated fashion in the upcoming quarters. But this will depend on the macroeconomic situation. And according to our Central bank, we can see that there will be -- we will have more opportunities.

So on page 10, we summarize the indebtedness of the Company, our leverage indicators. And what you can see last year is in terms of sales of assets, we were able to leverage our company, 60% of our gross debt. Now this movement, as the results drops our net debt over EBITDA of 5.2 to 2.8 times, which is part of the strategic guidance that we are following and because we want to have a company with lower level of leveraging than the last years and, with this, to invest the capital that was used to pay interest rate to pay our shareholders.

I would also like to highlight on this page, an important evolution in terms of debt profile. We prioritize the payment of the debt with the resources that we attained from our sales throughout 2017. We have amortized in March, the fourth debenture has been totally redeemed. We have 58 million to pay throughout the year. These amortizations are highly related to financing lines that were hired together to the BNDES in order to build Manaus Shopping and the Salvador.

Small and long-term debt, throughout the year we want to work -- that is to reduce the spread with the extension of terms. We believe that in our spreads, today, we have a bit more comfortable situation because the creditor now sees the Company. We know that there are some shareholders listening to our presentation today and to work better with our duration of our debt and always keeping in mind the plan of the Company of reducing the debt, eliminate spread to diminish our debt.

As a whole, this is why we would like to go to page 11. This is a very brief wrap-up. We talked about our annual growth and the indicators in shopping malls, the indicators in the hotel area, also in the restaurant area. We also mentioned the sale at Fazenda Boa Vista. We want a very important commercial recovery here and capital structure optimization.

With this, we can start our Q&A session. And so, Eduardo and I are at your disposal. So now, we will initiate our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Andre Mazini from Bradesco BBI would like to ask a question.

Q - Andre Mazini {BIO 20377100 <GO>}

Good afternoon, Thiago, Eduardo. My first question regarding hotels. Although the daily rate is lower the occupancy has dropped to 64%. Are you going to intervene? Will you carry out any marketing here?

And my second question is Bosque Cidade Jardim, and is the Company -- does the Company have anything new to launch? What is going to happen from here on?

A - Eduardo Camara {BIO 2074637 <GO>}

I am going to change order of your question so -- because I want Thiago afterward to answer the question regarding the hotels. Now regarding Bosque Cidade Jardim, I think it's not even a new round. Our struggle has never stopped here. We have all the licenses here. This is a very comfortable matter to us from a legal point of view. But due to circumstances, we're facing the situation. We are doing what is possible trying to change this embargo situation.

We are -- we feel highly reassured. This has been taking longer than what we thought would be reasonable. Due to the situation that we have there, we're going to have to wait, and commercial acceptance was fantastic. Bosque had very high sales volume. And we believe that this product was highly accepted. So we have to continue doing what we were doing in the past.

Now, regarding the hotels, Thiago, if you can help us to answer this question, I would thank you.

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

Now regarding hotels, if I was trying to understand occupancy and the daily rate, there was a phenomenon last year. There was an asymmetry of performance between a hotel in Rio de Janeiro and hotel in Sao Paulo. Hotel in Rio de Janeiro benefited itself from the Olympics. And the hotel in Rio for those that know the hotel industry in Rio know that this is hotel very different from hotels in Rio. And we were able to work with rates that were above average because of a lack of hotels in Rio.

The situation in Sao Paulo is different. Sao Paulo is a city. And then the hotel industry depends a lot on business and also depends a lot on trade shows and marketing that is invested. As last year was a difficult year for the country, there was a drop in business

tourism. And as a consequence, we believe that there were more vacancy or a lower occupancy rate in Sao Paulo, which explains a drop in occupancy rate. Perhaps, I didn't understand your question correctly.

Q - Andre Mazini {BIO 20377100 <GO>}

I was analyzing quarter-after-quarter. The average daily rates dropped in -- during the fourth quarter of 2016. Perhaps, it is exactly because of the economic situation. And, of course, Rio de Janeiro had the effect of the Olympics. Could you please --

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

It's very difficult to understand you, Andre. I'm analyzing quarter-after-quarter, the quarter -- the last quarter of 2016 vis-a-vis the last quarter of 2015. Of course, we no longer have the Olympics effect, and the occupancy rate drops and the average rate also dropped. I don't know. I thought it was going to increase. And the occupancy rate in Sao Paulo dropped, although the daily rate was lower. What we have to do is to understand this impact in Sao Paulo. I believe that Sao Paulo shows this clearly. There was a drop, and this explains the environment of the fourth quarter of 2016 that was weaker than the environment during the fourth quarter of 2015.

Q - Andre Mazini {BIO 20377100 <GO>}

Okay. Thank you very much, Thiago.

Operator

(Operator Instructions) So we bring our Q&A session to an end. I would like the floor to Mr. Eduardo Camara for his final comments.

A - Eduardo Camara {BIO 2074637 <GO>}

So once again, I would like to thank all of you for your participation. I would like to highlight that as always, you know myself, the RI department is at your disposal. If you need any additional clarifications, our doors are open to the entire market. And once again, I would like to share and I would like to congratulate our team from different areas, the operating area regarding recurrent income of shopping, the central departments that had a very important role in the deployment of the deleveraging strategy, asset monetization.

Therefore, the year gives us a good aftertaste. And I would like to congratulate you for your effort and for the results that you have delivered. Good afternoon.

Operator

JHSF Participation [ph] conference call has come to an end. We would like to thank you for your participation. And have a very good afternoon.

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