

Q3 2016 Earnings Call

Company Participants

- Eduardo Silveira Camara, Board Member and CEO
- Thiago Alonso de Oliveira, CFO and IRO

Other Participants

- Andre Mazini, Analyst

Presentation

Operator

Good morning. Welcome to the conference call of JHSF Participacoes to release the results of the third quarter of 2016. Today with us we have Mr. Eduardo Camara, CEO; and Thiago Alonso de Oliveira, CFO and IRO. This conference call will be recorded and all participants will be listen only mode during the company's presentation. And we are going to start the questions-and-answer session, when further instructions will be provided. (Operator Instructions).

Before proceeding, we would like to clarify that statements made during this conference call relative to JHSF business prospects, operational and financial projections and goals are beliefs and assumptions of the company's management, and are based on information currently available. They involve risks and uncertainties, because they refer to future events and therefore depend on circumstances that may or may not occur. Changes in the macroeconomic policy or in the law and other operational factors may affect the future performance of JHSF, and may lead to results that will be materially different from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to Mr. Eduardo Camara, who is going to start the presentation. Please Mr. Camara.

Eduardo Silveira Camara {BIO 2074637 <GO>}

Thank you. Thank you all very much. I thank you for your presence in our conference call. And I'm going to start on page three or slide three of our presentation with our highlights. So, on the operational aspect, the numbers you see demonstrate the excellent results that we are attaining in our target areas, the core areas, core businesses for the company. In hotels, we have had a quite relevant growth in its sales indicators and revenue indicated. The two digits growth in same store rent and same area rent confirm what I'm saying in Fazenda hotel and restaurants. Hotels are having a quite relevant performance with two digits and high digits.

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And in terms of restaurants, there is a compensation between average couvert ticket and stable number of couverts sold. Strategically speaking and most importantly, what I would like to draw your attention to is to establish a relationship with what we've been saying for the past 12 months is our focus on the capital structure, reduction of leverage and we have completed this quarter, the third of three very important steps, which was the sale of international assets and two sales more recently together that work together to generates approximately 1.6 billion, totally directed on reducing our debt.

In addition, and talking about our debt, we are renegotiating 80% of our debt, restructuring it. And 80% means 100% of our liabilities that can be renegotiated, because the rest are obligations with BNDES. In this manner, I repeat, with the commitment we established one year ago in terms of reducing debt, regenerating liquidity and the completion of three very important -- for rather very important businesses that contributes to reduce the debt and contribute to the capital restructuring in terms of its profile and we are very confident now.

I would also like to draw your attention to the result of the sales of these ventures, totaling one minority share and the other one in terms of value generation that that has provided a Greenfield project that we developed in the past has created value in terms of increasing value that is very relevant when we compare investments with a possibility of realization.

And another point that I would like to highlight before I turn the conference over to Thiago, who is going to talk about the numbers, it was also part of our objective to reduce the company's expenses at relevant levels and the number was BRL43 million in terms of SG&A.

So this is what I would like to -- these are the highlights I would like to mention. Now, Thiago is going on for the numbers now on page four of the presentation.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good morning, everyone. I'm first going to mention a few comments. We mentioned a significant variation of the gross revenue of 35%. The main item contributing to 95% of this reduction is the result from our development activities. And during the third quarter of 2016, we have had a combined effect of a smaller sales than those that were booked in the third last year, as well as we have had the effect of cancellations. And this has been the main factor driving the company's gross revenue as a whole down. For other businesses, the revenue was practically stable as compared to one year ago, except with recurring income with our retail activity because we sold international brands or businesses that were related to international brands. That's why we had a reduction in our sales.

Looking at the same page, on the upper right-hand corner, so we have had a reduction in EBITDA from BRL49.5 million to BRL43.2 million, as a result from non-recurring items for the adjusted EBITDA. So expenses that we have had during the third quarter related to the payment of lawyer fees and consulting that we used during all the transactions that

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Eduardo mentioned shortly ago, and also the effect of the payment of the bonus to the company's staff and we did -- in the third quarter this year and because of that that had an impact in our adjusted EBITDA.

Now, the financial result. We had a growth of financial expenses of about 41%. And this growth is essentially related BRL23.7 million, more specifically arrived from items that are non-cash. So the return of interest rates because of the cancellations resulting from our development activities and fast booking of fees that we paid in the past that were cash -- booked in the past, but in the phase of amortization in financing lines and we had two expedite and also affects variations. So we are talking about the what cash item that is in here, which is IOS that Brazilian tax on financial transactions, because we contracted some funding lines.

Because of all of that, our net income went from plus BRL3.3 million to minus BRL55.7 million. And just to be clear here, this has suffered a significant impact this quarter because of cancellations, because of the non-recurring effects that are booked in the financial and operational results.

Now, I would like to go to page five, where you can see our operational indicators in our shopping mall area. So, you can see the bar on the lower part of the slide. There has been a stability in same store sales as compared to one year ago. Same area sales variation was very small of 0.7, but then on the other hand, we have had a quite robust performance in terms of same store rent in same area rent, both of them with 11 plus variation.

When we break down the company's portfolio, it is possible to see a situation that is very different for each one of the malls. I think that's today our agrees to challenge operationally speaking is centered in the north of Brazil in a shopping mall that we have in Manaus with the weakest performance right now. And this has driven most of these indicators down. So we've been working intensely in Manaus and we can see from the indicators in October a more positive trend in these numbers.

So now looking on page five, so sales have grown year-on-year, and considering the macroeconomic scenario, we are quite happy with this 3.3% growth and well it is necessary to understand the overall scenario where we are operating. And of those 3.3%, our performance in Manaus kind of affected this number meaning that, other malls at least most of them have had a performance that's well above these 3.3%.

When we look at gross revenue and here we are talking about the money that brought in for entrepreneurs or in terms of revenue generated and once again, each mall is a different story and we are very happy with the performance of outlet of Cidade Jardim. I think that these two malls are surfing a different wave, whereas Manaus is kind of different. Our occupancy cost is very low, it was very low last quarter. This quarter we are back to the levels of the first quarter and we are conducting work of centralizing some activities. And in terms of reducing the cost of condominium and thereby having some more room to think about rent. And when we look at the leased area, the chart on the

lower right-hand corner, you can see a progressive recovery of our commercialization fee quarter-on-quarter.

And we would like to emphasize once again that in terms of commercialization fee, we are doing very well in Cidade Jardim and Catarina, and very happy with what we have in Manaus. I think that the level in Tucuruvi is also very good. However, we are navigating in Manaus against the wind, but we have started to see a reduction for the vacancy that we have there.

That said, let's move to page six to talk about the performance of our hotels and restaurants. On the table above, we can see the hotel indicators here, just out of curiosity, you can see the average daily rate, growing more than 50% quarter-on-quarter. And this is essentially the effect of the Olympics in our hotel in Rio de Janeiro. And when we look at the occupancy rate, there is a negative number.

What happened? Well, Rio was over booked was really and but Sao Paulo is having a weaker performance and we see that business tourism is going through a slowdown period in Brazil. And Sao Paulo is a city that suffers major influence of that effect. And for this reason this indicator is opposite to the other ones. In terms of restaurants, it's practically stable in terms of numbers of couverts, a minimal variation of minus 0.4. But then on the other hand, the average couvert has grown 6.7%. So the situation that we see of average couvert clearly demonstrates the resilience of our business model and now having restaurants for high income bracket.

Now going to slide number seven, talking about our development, our real estate development, so on the table, at the top, we can see net contracted sales and the two negative numbers, significantly negative Fazenda Boa Vista, where one investor canceled major contract with us. We do not foresee situation such as this to take place again in the future. It was a very specific case that we had in the farm [ph] so it was a customer that had difficulty in terms of taking ahead each investment project, was having difficulty to pay and then we had an agreement for a cancellation, termination of our contract.

The second highlight is Bosque Cidade Jardim. This development has been shut down by the court for about a year-and-a-half. We have had cancellations amounting to BRL19 million. And depending on what happens with this regard, there may be other cancellations here. This is a venture that we really like. We have been working intensely to reverse that situation, but we have not yet succeeded in terms of lifting that motion or that injunction. So, everything we wanted to say is very much aligned with what he said in his beginning of his presentation.

Last year, we've been working intensely in a binomial, which is the reduction of gross debt and longer times for the remaining time. And I would like here to express my gratitude to the banks we've been working with and we've been working as partners. Last year, we sat down with them, we presented our action plan and in this manner together we are building something in order to deliver a significant reduction in our gross debt. And looking towards the end of the year and with the completion of the sale of the two malls, so 100% of Tucuruvi mall and 33% of Cidade Jardim mall and then we are moving to a

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gross debt of about 1.2 billion approximately, which will place us at a very confident situation. Just as a reminder, one year ago, this debt was 2.7 billion. And so, we are reducing 1.5 billion in debt. And within this scenario, we are selling assets that were pre-operational but still are not generating cash, but for those that generate cash, we are talking about BRL70 million, BRL75 million of cash generation that we saw and we hope to recover that in the future. Not just with improvement the scenario in terms of real estate development and as soon as the market permits, we are going to work on assets we already have in the area of recurring income. In this manner, we complete the messages that we wanted to say to you.

And I was wondering, myself, we will both be available to answer any questions you may have.

Questions And Answers

Operator

Thank you. We are now going to start our question-and-answer session. (Operator Instructions) Our first question comes from Bradesco BBI.

Q - Andre Mazini {BIO 20377100 <GO>}

Hello. Thank you for the call. What about the prospect for future businesses? Brexit, [ph] in terms of future projects together you are deleveraging maybe Greenfield?

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

Hello, Andrew, this is Eduardo. I would like to highlight what Thiago has said that new movements will depend on market conditions and also on the preservation of an appropriate capital structure. But with regards to details of the transaction addition to what we released in a material fact, I'm sorry, I can't say anything else.

Q - Andre Mazini {BIO 20377100 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) We are now ending our questions-and-answer session. I would like to turn the conference over to Mr. Eduardo Camara for his closing remarks.

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

Thank you all very much. We would like to thank you all once again for your attendance. And as usual, we are all available if you have any questions to ask in the future. If you're listening to the conference call at any time, please get in touch with our Investor Relations department if you have any questions to ask.

And just one final comment: Thiago thanks the help of our partners, the banks, who undoubtedly played a very constructive role throughout this process, but this would not have been possible without the hard work of our team, who worked very intensely to complete all this project in terms of M&A, in terms of re-profiling the debt and renegotiation of our debt. So here my honest, my heartfelt thanks to all our team. Thank you very much.

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Operator

The conference call of JHSF has now ended. We would like to thank you for your participation and wish you a good day.

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