

## Q3 2013 Earnings Call

### Company Participants

- Eduardo Silveira Camara, Deputy Chief Executive Officer, Investor Relations Officer, Member of the Executive Board, Director
- Jose Auriemo Neto, Chief Executive Officer, Chairman of the Board, Member of the Executive Board

### Other Participants

- Gustavo Cambauva, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning. Welcome to the conference call of JHSF Participacoes to discuss the results for the third quarter of 2013. Today with us are Mr. Jose Auriemo Neto, CEO; Eduardo Camara, Vice President and IRO; Andre Rodrigues, CFO; and Marc Grossmann, IR Manager. We would like to inform you that this presentation is being recorded and that all participants will be connected in a listen-only mode during the Company's presentation. Later, we will begin the Q&A session when further instructions will be given. (Operator Instructions). Before proceeding, let me clarify that any forward-looking statements that may be made during this conference call relating to the Company's business outlook, operational and financial targets are based on beliefs and assumptions on the part of the Company's management and on information currently available. They involve risks, uncertainties and have to do with future events, which depend on circumstances that may or may not materialize. Changes in the macroeconomic policies or in legislation or other operating factors may affect the future performance of JHSF and lead to results which differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor over to Mr. Jose Auriemo Neto who will begin the presentation. You may proceed, sir.

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

Good afternoon to all. Welcome to our conference call to discuss the results of the third quarter of 2013. We will begin on page two of our presentation with the highlights of the quarter and the Company had very good results in the division of recurring revenue with growth in all revenues total, margins also have grown, EBITDA, net income, as you can see gross income grew 99% and net income grew 153%.

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This is thanks to the inauguration of the shopping mall, which were completed and the growth in revenue and income of those shopping malls, which are already in operation. Add to that real estate development in this quarter, sales division had the impact of a non-recurring issue relating to the Salvador and Boa Vista project. We would like to highlight that the Company has been pursuing its strategy to grow in the area of recurring revenues while maintaining the real estate development areas at more or less constant levels relative to our historic levels.

I would just like to highlight the fact that the Company has been focusing more strongly in growing its recurring revenue area. And the fact that we achieved our target reflects the fact that our plan is going well. Also we would like to highlight that the building in New York has received approval for retrofitting on the part of the Landmark Commission. It's a very important step for us and we believe that this project is going to add a lot of value to the Company.

In Q3, we launched three residential projects with a PSV of 269 million. The sales was very, very successful and the Company also would like to say that we decided to sell land in one of our project and it has reduced the number of launches in the quarter. We decided to sell land and not sell build unit. And within the Company, the impact has more to do with the number of launches. Once we sell land the margin of the enterprises will be preserved with a lower risk in terms of execution and cost controls relating to construction works.

Also as regards the executive effort, we had the authorization granted by the Secretariat of Civil Aviation and we were also granted the preliminary license issued by Cetesb (inaudible) environmental agency. The preliminary license is extremely important, because it ensures the feasibility of the airport from an environmental point of view. The preliminary license is followed by the implementation license, we have filed for the obtainment of this license.

It has been required by the Company and as regards the process having to do with the installation license we will have to address all the issues raised during the preliminary license. This process is underway. We expect this process to advance considerably in the next 60 days.

We have also completed a sale operation, we sold future receivables of Fazenda Boa Vista to Real Estate Investment Fund together with Rio Bravo, this fund is a co-investor in part of the project. And this gives us an alternative for funding, which is very good for this type of project. And this has taken place also in Q3.

After the closing of the quarter, we bought the -- we bought an interest in the Shopping Higienopolis, pending some conditional issues that we have to meet, we have to address some issues. Shopping Patio Higienopolis is a shopping mall, part of the transaction involves a swap and this will bring us results in line with our expectations.

As regards Catarina Fashion Outlet, the installation license was issued by Cetesb (inaudible) environmental agency and this installation license actually means that the

licensing process for the project is finished. Because of environmental issues this project was a bit late that we intend to open Catarina Fashion Outlet in the beginning of the second quarter of next year at the latest.

The Company also provided some clarification on the guidances. As regards our shopping mall division and as regards our real estate development area and we made adjustments to that instead of measuring revenue, we are going to provide guidance in terms of EBITDA. EBITDA may be a metric, which is more in line with the Company's strategy. In real estate development we find it kind of difficult instead of launching one billion, you may launch less because of the mix of product, oftentimes there is a greater number of plots.

## Operator

Ladies and gentlemen, please hold while we reconnect the speaker. Please hold. Thank you. Mr. Auriemo Neto, you may proceed sir.

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

So going back to Catarina Fashion Outlet, which was granted the installation license and we expect to have the outlet ready in the beginning of the second quarter of 2014 at the most. And also in terms of guidance, the Company now is going to give guidance based on EBITDA rather than revenue. As in real estate development for example, in some projects we have a greater component of land, which reduces PSV, but does not reduce the bottom line. In the shopping mall area, we have a guidance of 436 million in revenue, gross revenue for 2013, we have maintained this guidance. And for 2015, 430 million of revenue.

We are now giving guidance that the Company expects 290 million in EBITDA by 2015. We are going to provide further clarification going forward on the break out of the enterprises and projects, which are going to complete our portfolio.

On page four, we have the revenue of the Company and all the breakdowns. And this breakdown reflects the strategy of the Company. Real estate development readily loses its share relative to the recurring revenue segment and we believe that this reflects a transition for the Company. The revenues generated by the recurring revenue area, things that have to do with rentals and leases makes a smaller revenue with a greater component of bottom line of profit. In this transition, it is just natural that the Company sees from adjustments regarding revenues.

On page five, we show that the accumulated revenue for the year, for the Company as a whole, has decreased by 20%. As regards recurring revenue on page six. We show the increase of this division as I said. And in Q3, we have R\$51.5 million in gross revenues with net revenue of -- net income of 21 million. This revenue includes the different activities of the division in shopping malls basically. And we have a pie chart in this page showing the breakdown of the revenues.

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I would like to highlight some points on our shopping mall business. The Cidade Jardim shopping mall continues to have very good performance, you can see more on the release in a case R\$22 million in the quarter. There was a growth in the Bela Vista shopping mall in Salvador and this shows that project has a good potential for growth as it matures. The Tucuruvi Shopping got in very expressive revenue in the quarter and we see a shopping mall that even though it is (inaudible) it has a revenue base, which is important for the Company.

We believe that this is a message that should grow in the next few years very considerably and also the profitability is very good. As regards the result from the point of view of the quality of the results, this is what I would like to mention. We also open the Ponta Negra shopping. It's very well located. It has very important brands in its stores. And some of them are opening stores for the first time in Manaus and we are very excited with the performance of Ponta Negra in this initial period.

This is a project that also had a potential to create a lot of value for the Company. And as regards this area for the next two years, we will see the Catarina Shopping, the construction work are virtually finished. We have been able to sell it well. We have an NOI of R\$200 million. And on page eight, we provide disclosures on the sequence of enterprises and projects where the Company is investing for its 2015 guidance. (inaudible) project, we have Reserva I, Reserva II, the Company has a lot of know-how in working with large project. Cidade Jardim (inaudible) Bela Vista as well, the Salvador project as well, we depend on some large project to pursue our strategy and we are going to see this large project like Cidade Jardim, Tucuruvi, and we will achieve --

## Operator

Ladies and gentlemen, please hold while we reconnect the speakers' lines. Mr. Auriemo Neto, you may proceed sir.

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

I would like to apologize for the disconnection of the line. But we are going to talk now about the execution of our investments in our project and the projects are divided into phases and what is important is to look at the potential growth not only for 2015. We have a substantial NOI number, but also you have to look at the pipeline of the revenue division.

We would reach 481 million after the projects are completed. Of course, we know that there are challenges in Brazil that have to be addressed, challenges having to do with the construction of these projects. And one of the Company's major strategies, because of the profitability, is to invest in greenfield shopping malls. We know that, on the one hand, there is a lot of profitability; and on the other hand, building these shopping malls entails many challenges, but the Company focuses on that and has a strong commitment to this pipeline through this investment as soon as possible.

It's our understanding that all of these opportunities are opportunities that meet the needs of the market. The challenge is the operational side and we have been trying to focus very strongly and to operate as close as possible to an optimum level.

If we execute all the investments that we forecast, the Company will be at a new level (Technical Difficulty) The cost of the probable project and it's important to say that the Company is committed to quality.

And obviously, when we are finishing a large project like that one, we are very much aware that we have to deliver the works in prime conditions. This has been our position and from a financial point of view, it might not be the ideal thing, but we cannot think about a Company -- as a company that has a project from a financial point of view only when there is a situation, when the Company has to invest a little bit more to deliver a product, which is in line with what was sold with the standard, this is what we have been doing.

In Salvador, the real estate market has been difficult, the selling price has not increased, but our inventory of land there, our land bank now has a higher value, a substantially higher value than when we started the project. And these has to do with the appreciation of the shopping mall. The Company then decided to backtrack in two of the residential launches in that piece of land. We -- from our point of view, the value in that market was not in line with the appreciation of the land and we intend to use the land for other activities or for our futures residential project, so as to ensure greater profitability for the Company and more value-added for the Company. We made the decision and I think that this -- and I think that this makes this last stage of the works in Salvador a lot easier from the point of view of management. Also we mentioned as a negative impact in this quarter in the real estate development area, we have a minimum lease guaranteed for the commercial buildings of Cidade Jardim and that had a negative impact of 8.7 million in the quarter. And together with that also in Fazenda Boa Vista we had some contract cancellation, more specifically, one investor decided to cancel the contract and the impact of Boa Vista is a one-off thing, it's not a market trend.

However, I think the Company moved forward considerably in the new launches such as Mena Barreto, Cidade Jardim Town Houses and Bosque Cidade Jardim. These three projects depended on a municipal license and we moved forward in the quarter. They are now being sold, they increase our receivables portfolio and our activity in the area.

And also from our point of view real estate development, when it's analyzed on a single quarter, is subject to fluctuation. We are trying to give you clarification on this impact and giving you our view that this is an area that can give R\$200 million per year in terms of bottom line and without focusing on an analysis quarter-on-quarter.

## Operator

Ladies and gentlemen, please hold while we reconnect the speakers' lines. Mr. Auriemo Neto, you may proceed sir.

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

And then moving on, as regards the real estate development area, we see that this area may generate some 200 million in terms of profit. And this is considering the profit and the EBITDA metric, which is now the one for guidance purposes in this area. And as regard hotels, the results are in line with our expectations.

The Company has been performing very well in its city hotel and those linked with Fazenda Boa Vista and Punta del Este. Fazenda Boa Vista and Punta del Este have not brought in a positive result to the Company, but in the next few years, these two operation should run a profit. Fazenda Boa Vista, you should be very close to that. Punta del Este is not so close, but it is our understanding that Vista has been closed in the revenue, especially in the Boa Vista project, we have a potential of appreciation for this project. The Company holds this susceptible of growth for the cities in Brazil and elsewhere.

Terms of the contract JHSF keeps the property, but the projects are managed by others that is the case of Fasano in Rio de Janeiro. As regards our retail areas, the results have been picking up in Q3 when we disclosed Q2 results, we explained that there has been some negative results having to do with delays in the import process and the merchandise has not arrived. That have an impact in that quarter, but in Q3, this issues have been addressed. And as further update regarding the Executive Airport Catarina, the Company intends to explain the revenue base more clearly whilst the final authorizations have been granted and the works have begun.

We are going to present this project in greater details in the near future, but what we can say is that, revenue will come from (inaudible)from the sale of fuel and from the operation of the airport. It's a mix of revenue. We are also investing and as has been said, the Company intends to have a partner in this project who can help fund part of the investment required for building the airport.

On page 15, we have the Company's indebtedness. The net debt over adjusted EBITDA ratio is very similar to what we saw last quarter, just slight improvement. And we use the value of the net debt less performed receivables, which bring in financial revenue and also the possibility of converting the receivables in cash. The Company has done this, when opportunities arise and these opportunities are deemed right.

Our net debt is now 3.1 times the adjusted EBITDA. We have been also working in the amortizations. In the future amortization according to the maturity schedule, and the Company tends to amortize in a smoother way with the refinancing of some of the debts.

As regards the recurring revenue segment and the real estate segment, on page 16, you have the guidance as I have explained in the call.

I would like to thank you all for attending. I again apologize for the problems with the telephone line. And we now remain available to take any questions you might have.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions). Our first question comes from Mr. (inaudible) from Itau BBA.

### Q - Unidentified Participant

Good afternoon. Thank you all very much for the presentation. I have two very big questions. The first one is, can you give us some more color about the Company's land bank? How many plots do you intend to buy in the next few quarters excluding those large project? What do you think you should buy to maintain a volume of launches in 2014 and what is EBIT volume?

Second question has to do with the outlet. The outlet is going to open in the first quarter although you have practically sold everything, is there any penalty that you have to pay to store owners or a discount in the lease values, because the opening was postponed, can you explain a little bit more about it?

### Operator

(Technical Difficulty). Ladies and gentlemen, please hold while we reconnect the speaker's line. You may proceed, sir. Mr. Auriemo, you may proceed sir. So we're open for questions.

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

Can you hear me?

### Q - Unidentified Participant

Did you hear the two questions that I asked?

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

Can you repeat them, please?

### Q - Unidentified Participant

No problem. We have to reconnect the line. Thank you. It's actually two very quick questions. First, I would like to have a little bit more color about the land bank. To maintain the volume in the real estate division in 2014 and in the next few years you might have to be a little bit more active in terms of purchasing plots. What is your view on that?

What are you thinking in terms of buying plots and what would be a reasonable volume for launches in your real estate development division? And also as regard the outlet of the Catarina project, this outlet will be opened in Q1, 2014 and you have sold the stores, is there any penalty; do you have to grant any discount to the store owners because of the delay in opening it? What is the negotiation like? Thank you.

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

Okay. First, let me talk about real estate development, in 2014, we have a sequence of project which are underway with the exception of Fazenda Boa Vista. This project will be worth R\$16 million of net income. I have to give you a little bit more detail about this pipeline. As regards Boa Vista, it has been contributing a reasonable amount in our development pipeline.

Next year, this figure should be in excess of 100. From our point of view and being conservative there is a sequence of projects in the Company that I'm sure that 2014 will be a good year.

We have a pipeline of projects, which we are analyzing for acquisition. It was possible to acquire land in the last few years. The three plots which we didn't launch this quarter was plots that we acquired in the last few years, and we are going to strengthen the pipeline to be more (inaudible). As regards Catarina, there is no relevant financial impact under the contract. There is a loss of revenue because of the delay in opening the outlet.

The Company has been conservative. There was an environmental issue that had to be sorted out. And we went down the route of challenging less because the process was underway. So we just did the analysis required by the environmental agencies and this allowed us to obtain the implementation license.

**Operator**

The next question comes from Mr. Cambauva from BTG Pactual. You may proceed sir. Mr. Cambauva please.

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

Hello, can you hear me?

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

Yes.

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

So you didn't hear my question, right?

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

No. If you can repeat it, we would appreciate.

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

It's actually two questions. First, had to do with the Horto Bela Vista, the cancellation of two towers, you are now delivering the units. Can you give us some more color about the transfer of those units?

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We saw that other developers have delivered lots of unit, there were lots of cancellations because it was difficult to transfer the clients to banks, how are you monitoring that and getting ready for the deliveries in that residential project in Bela Vista?

And then also as regards to project, you cancelled the two towers and you are assessing the possibilities, I mean, what you can do with that land? Do you have anything more advanced, maybe sell the land or do something on the property side, do you have something more structured or are still evaluating the possibility?

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

So to address the first part of your question, we would say that the Company is very mobilized now. We have a team working in the delivery of the apartments, that's a very important front because when the units have no problem, delivery is made very easy. And from the point of view of transfer to banks, the situation in Salvador is very benign. The price of the unit that are being sold is above the price of the units that were sold effectively. The Company has been encouraging, I mean, when clients who bought the unit sometime ago wants to transfer the units to someone else, I mean, some developers are pretty fixed about it, but we accept that depending on the case. And we allow the clients to gain oftentimes. And this has been helping us. I think the pace is good, the speed of transfers is good. And a process like this has different factors at play. It has to do with the completion of the works, the delivery of the units, documentation, there is some red tape involved. From the point of view of the business, there is nothing to lead us to think that things will go -- will not go according to plan.

As regard the two towers, we have negotiations underway, but they have to do with properties, not for the whole area, but possibly for the area closer to the shopping mall. We are evaluating some alternative. And the profitability would be higher and the strategy would be more in line with the strategies that the Company envisages today.

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

But then the idea would be for you, for the Company to develop that and then include that in the portfolio or to another partner, what would be the idea? Hello, can you hear? I was asking, whether in terms of properties, the idea would be for JHSF to develop that and then incorporate that to the portfolio or to bring in a partner who develop that on your behalf?

**Operator**

Mr. Eduardo Camara, I think the previous speaker's line has dropped. Ladies and gentlemen, please hold while we reconnect the speaker's line. Mr. Auriemo Neto, you may proceed sir.

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

I was looking for the next question.

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

Well, just a follow-up on the question about property development, would you do it? I mean would JHSF do it or would you engage a partner, it was my impression that you wanted to pull out of Salvador. Would you develop that asset on the property side or would you engage a partner to do it?

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

Actually there is nothing defined as yet. But in terms of properties, it does not have to be like an office building, it could be a retail operation, we will be able to give you some more color going forward.

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

Thank you very much.

**Operator**

Our next question comes from Mr. (inaudible).

**Q - Unidentified Participant**

Good afternoon. I have two questions, the first one is regarding the strategic decision made on the part of the Company to acquire part of Higienopolis, Patio Higienopolis, the shopping mall. The Company has always focused on greenfield enterprises and greenfield shopping mall. So this decision is contrary to what you have always done. Acquiring a controlling stake of that mall might be very expensive, you are also not able to manage the mall and your history is towards creating value with greenfield projects. So what is underlying this strategic decision?

And then also having to do with the shopping mall, in addition to the ones you have announced shopping by, shopping malls by subway station, by metro station, there is a shopping mall (inaudible). What can we expect from Reserva. I didn't hear your comment about Reserva, but what is the expectation regarding the license for Reserva II for the tower? And whether the Company expects to have another revenue generating project in addition to the airport or will this next large project be the airport?

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

As regard to Higienopolis, we managed the project for year. So we know very well the characteristic, the upsides and also the downside of that enterprise. With the high quality asset and the focus of the Company was in identifying a possibility of having an affective business, an attractive deal, obviously while considering the combined condition of that acquisition.

**Q - Unidentified Participant**

If this project can be completed?

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

As you know there are some pending issues. But if we can complete the deal, then this should add value and generate value to the Company. Acquisitions in addition to this are of course subject to a deeper analysis on our part.

As regards the Company's pipeline, we have been focusing on delivering. We are always open to deals should they emerge in the market. But our focus will be on delivering on the pipeline for 2015.

We have Reserva I, Reserva II divided in some phases. We think this is important to allow the project to generate cash as soon as possible. And please remember that the rationale of these two projects is to have them as an extension of Cidade Jardim. They are almost like extension of the Cidade Jardim. And we believe that the main focus of the Company is to deliver on the pipeline and execute the pipeline that we have described. That's our number one priority. As regards Reserva II, there is a path there and access since it generates a lot of traffic, it takes longer.

## **Q - Unidentified Participant**

What about the approval process? When do you expect the project will be approved? It's the major project and very relevant in terms of generating values.

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

As regards the, I mean, we can give you some more details to you and to those investors who are interested in that. But the road access has been defined and there has been a publication on the part of the authorities about this project.

We are very excited and we think that the stages of approval, although they are complex, I think, the process is at a very advanced stage. And we can give further details to those investors who are interested in this. And it's quite difficult to explain on the phone or in a call.

## **Operator**

(Operator Instructions). JHSF conference call is now ended. I would like to turn the floor over to Mr. Auriemo Neto for his final remarks. Ladies and gentlemen, please hold while we reconnect the speakers' line.

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

This is Eduardo Camara, once again we had problems with the connection. Jose Auriemo is in Asia and despite the time zone, he wanted to participate in the call. And on his behalf, I would like to thank you all very much for attending. And make our team available should you have any questions. Thank you very much for attending and have a good afternoon.

## **Operator**

JHSF conference call is now ended. Thank you all very much for participating and have a good afternoon.

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