

Q3 2020 Earnings Call

Company Participants

- Mara Boaventura Dias, Investor Relations Manager
- Thiago Alonso de Oliveira, Chief Financial Officer, Director of Investor Relations

Presentation

Mara Boaventura Dias

Good afternoon. We -- welcome to the teleconference for JHSF participation on 3Q '20. We have here Thiago Oliveira, Director of IR. And myself Director of Investor Relations. The presentation will be recorded. And all the participants will be on listen-only mode. This has been transmitted simultaneously to YouTube, by our page, and via webcast. And maybe essenced on our website, ri.jhsf.com.br-english. And by our platform, where you can download. Please make your questions by webcast, pushing ask the speaker and declarations that can be made during this teleconference related two business perspectives: -- and operational goals are only premises of the management, as well as informations, based on information that we have now. They involve risks and uncertainties because they have to do with future events and depends on circumstances that may or not occur. And also, operational factors and laws and et cetera, may interfere in reduced results that are different from the ones here expressed.

Now, I'd like to give the floor to Thiago, who will start our presentation. Please Thiago go on.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon, Mara, good afternoon everybody. It's a pleasure to be here with you to present the results of JHSF for our 3Q '20.

It's a quarter, where we saw in operational context in the activity of real estate. We saw a commercial rhythm [ph] that is accelerating to responsible to grow sales 190%. And I also like to paint, in yellow for this division, that we did two editions in land bank during the third quarter, this two land banks are strategic for our growth plans of the company. And in the complex Boa Vista 6,600,000 square meters that we bought in August. And a little bit before that in July, in area around --. So it's a division that is growing well in sales, and we are paying attention to land bank management.

In recurring income, the third quarter of this year presented a good recovery in relation to what we had seen on the second quarter and this improvement has to do with the process of reopening -- gradual reopening of the shopping malls, as -- so the cities where we operate, we're opening those activities again. And with that, we saw not only resumption in sales but also in flow, in the levels of sales that we are saying right now. At

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the end of the third quarter, in an October is already better than the same period from 2019, with the exception only of a one shopping mall we have in Salvador, Bahia, where the cities still has some restriction and that do not allow us the same level of sales that we have last year.

On this quarter, the company decided not to do any type of linearization of the discounts because of COVID. And I also like to emphasize that, we did not have any problems, any issues related to delinquency and being quite objective in September, we had what we call a negative delinquency. So we recover delinquency from the previous quarter's what for that, for us is very encouraging showing the strategy that we adopted with proximity with our partners it's healthy for them. And for us that's important in the sense of preserving the mix.

And of our relationship with those retailers. We -- during this third quarter, we launched Boa Vista market which is a way that we took to Fazenda the Boa Vista, the operations that are very similar to a shopping mall. The project has been working in a very good way. And we also followed with the expansion work of Cidade Jardim Shops. And if we will inaugurated this year in our calendar points to inauguration in November, Cidade Jardim shopping is still expanding and also Catarina Fashion Mall.

And talking about hospitality and gastronomy. It's a similar situation from this standpoint or presumption as we're seeing in recurring income. And also a resumption of hotels and restaurant operations by the end of October. So right now, all the hotels are already opened. In those hotels, there are more for tourists, leisure hotels have a higher occupation -- occupancy rate than last year, only third quarter. What makes us believe that, the situation brought by the pandemic has led to a growth in the internal or domestic tourist sector in Brazil.

And we can see that, looking at the occupancy rate of the hotels, restaurants have also been reopened and we are dealing with -- we're changing the operation in -- not all restaurants were reopened. And we still have delivery, working a lot, and I will detail a little bit more the figures that we found in the digital platform, including delivery. And for the airport operation, the hangars had a 100% occupancy as we told you in our last call, we were already expanding three new hangars those hangars have been finished the patios are in their final phase of being paid [ph].

So by the end of the year this additional capacity of three new hangars for Sao Paulo Catarina executive airport will be available for our clients. Clients that had the highest level of operation of landings and takeoffs and also of gas throughout the third quarter. And I had talked about our digital strategy, Cidade Jardim Fashion has 400 brands already with which, we are working in the portfolio. It grew in sales as compared to last year a 146%, and the number of requests 87%. CJ Concert [ph] is a service that we added to the platform of CJ Fashion grew -- grew quite a lot. It has been very much used by our clients that want to do there -- want to buy in a comfort way through a team of people that help us, not only we grew in sales that was expressive since last year, but also as compared to the second quarter we grew 72% in CJ Food that had just been launched when we had our last call has more than 20 restaurants that are operating and hence we're able to take to the house of our customers the best of gastronomy through that app.

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Talking about gastronomy, about 15 days ago, we launched the Fasano App that integrates hotels, platform and gastronomy platform. And in terms of delivery that are being processed within the platform -- e-commerce platform for Fasano, we had a very important growth in the orders in the year-to-date. And our real estate sales also grew a lot, almost 2,600% of users year-to-date. And the platform is consolidated itself as the pathway by which the clients have access to our inventory and done digital transactions in the real stage part of the company.

Now, I'm going to be talking a little bit about each one of the business units. I'll start by real estate and we see higher sales, they have grown a 190% vis-a-vis the same period of last year. The gross revenue grew 220% and EBITDA -- adjusted EBITDA 423%. Here what we want to emphasize is an important growth. And higher sales in Fazenda Boa Vista, adding to that the launches from Boa Vista Village and we see the countryside of Sao Paulo with an important contribution in our sales and as a consequence in revenue and also generate EBITDA.

Now on Page 6. We will check the indicators for recurring income. We saw the retailer sales in this recovery process from 2Q to 3Q grew 352% in the annual comparison were 16% below what we have seen in 3Q '19. In terms of occupancy rate, no variation from last year from last quarter. So the levels are quite healthy, 96%, 97%, 98% of occupancy rate. In terms of occupancy cost, quite a reduction as compared to the second quarter. I always like to emphasize that occupancy cost is a sensitive item for retailers as some more sales happen the effect of occupancy rate in the dilution of the cost improves and this is quite clear as you compare these two quarters. And when we see year-to-year, there is a growth of 0.4% or points from one period to the other one.

I would also like to underscore that in total sales, Cidade Jardim Shopping and Catarina Shopping are positive already. As compared to what we saw in September last year, compared to September this year and this trend goes on in relation to October. So we are seeing actually resumption of the sales levels even better than last year. Now going to or better before, I change the slide, I want to emphasize that the sales indicators and rentals indicators are all positive as compared to the same period of last year, and we start to see the rent indicators converging towards positive levels.

Now talking about recurrent sales. Quarter-versus-quarters second versus third, a 188% of net revenue from 240% of gross profit and 82% in adjusted EBITDA. I would like to emphasize that the company decided not to do -- not to account an in linearization effect of discount as we had decided to do on this second quarter of 2020. What brings so the reading of this specially of DRE, that's closer to the truth and cash flow from what we are seeing in this period of having our business impacted by this restrictions imposed by COVID-19.

On Page number 8, talking about hospitality and gastronomy. We compared, just like, as we did in recurrent profit, we compared last year to this year, and I want to emphasize growth -- average growth, when we see an important growth as compared to the second quarter. On the third quarter, this is increasing, because the hotels are opening and the point of reopening. And also, look into the third quarter of last year, we had a decrease here and we can attribute part of this to the business hotels with occupancy rates. There

are lower than what we had last year, also rates that are lower. And now expressive growth of the number of copper [ph] sales, however, at a level of almost half of what we did in the last -- third quarter of 2019.

From this endpoint of average couvert it was stable from second to third quarter, but a difference around 11% as compared to the average covers from last year. It's a worth emphasizing that occupancy rate was almost 58%, while in the second quarter, we had 47%. Recovery, as I have already mentioned in leisure hotels. Here we point out Fasano Boa Vista has 34% or points above the same occupation that we saw in September '19.

And also a growth of a 1,100% in delivery of Fasano and the year-to-date. Also hospitality and gastronomy, the net revenue grew 260%, there was an improvement of 70% in gross profit and 40% of adjusted EBITDA. We still were not in a breakeven situation, but we're going towards breakeven. And maybe, we'll pick up profitability in this business unit that was quite affected by the closing of the restaurants. And even so, during the third quarter, districts in terms of times, they could be open and number of people that could be their.

Page 10. We'll talk a little bit about the airport. Operational data 90% more landings and takeoffs in the third quarter as compared to the second quarter. In September, vis-a-vis August a 111% in relation to gas sales or fuel sales it grew also, and that talks directly with the number of flights and volume of fewer commercialized expansions very well, this pictures here help, to show you what is going on and to complete the pictures that I showed before. And the commercialization of this spaces of this room's is going forward.

So in relation to operational aspects of the airport, it was a quarter with a -- advances in terms of operation, assisted flights, also the airport is going to where we planned except for being more ahead in area occupation, everything else is making us quite satisfied in relation to the investment that we are still doing there. In terms of net revenue, we're comparing only to the second quarter. Just to remind you, that last year the airport did not exist on this times only on the fourth quarter. So we cannot compare in a different way therefore, we compared to the second quarter 82% of growth in net revenue, 71% in gross profit, 31% almost in adjusted EBITDA.

At last, I would like to emphasize that in terms of consolidated result for JHSF participations this quarter, vis-a-vis the third quarter last year 92% growth of net revenue, gross profit grew almost 200% going from 90 to 265. Adjusted EBITDA, in here, just to remind you that our adjusted EBITDA always excludes from their effects and effect of further lands for investment, as other small ones that might make sense that are extending our releases, it grew to 132%, we got 229 million of adjusted EBITDA, for those of you who also look at cash operational generation, hours was 210 million this quarter. So we have a level of adjusted EBITDA very close to the cash generation, as we tried to show.

In terms of net profit we emphasize here of the total net profit. The total grew 87%, however, the realized grew from 51 million to 175 million. And the profitability effect of the

net result of the lands for investment. If you want any more details on that, we brought more information this quarter, in terms of results et cetera.

Now, to talk a little bit about cash position during the third quarter, the company did primary offer of shares and that resource of this primary offer came to support the growth plans that a company has for the coming years. And brought a situation of availability of cash, that today, when we look at our gross debt, we extract from it a debt that is mandatory of 120 million. We look at our cash and cash equivalents and interests and interest earnings and understand that we have a receivables that are in our balance income, especially from real state. They take us to the situation that is quite comfortable as far as liquidity, but also a comfortable situation of negative net debt. This is how interpret this figures that are here.

There was also during the third quarter, I talk on negotiation, absolutely constructive with when that half of our debt and that gave us a longer term and also brought a reduction in the financial cost associated to that debt. And with that, we also saw that the cost of the debt decreased 35% as vis-a-vis the previous period. In terms of amortization framework, it's -- we have very little 200 in '21 and '22, 230 million, and 1 billion from '23, but just to remind you that we have that we will take 15 years.

And at last before we go to Q&A, I would like to emphasize that, the net income growth was 87% from 223 in adjusted EBITDA and gross revenue 87. The growth of the real estate sales a 190% in sales and 423 adjusted EBITDA. Recurring income in clear process of resumption of operations going back to the stance that had before COVID. And we see that, in the indicators of same store sales as we said in September, especially in Cidade Jardim and Catarina, those figures are quite encouraging. And hospitality and gastronomy what we want to emphasize here is, for the occupation of hotels, occupancy. And at last, to say that the airport has presented significant advances and its operational aspects.

Before we open for Q&A, I would like to invite those who are watching to join JHSF in solidarity actions that we have sponsored, we have been sponsoring. These are some of the entities that we chose to support or to whom we decided to join in movement and thought. So if you are able to contribute, this is our invitation and our thanks. I'm going to leave this screen on, so if you want to use your cell phone to read the QR code, feel free to do it. Mara, shall we go to Q&A?

Questions And Answers

A - Mara Boaventura Dias

(Question And Answer)

Thank you, Thiago. We will start Q&A. Shall you have any question, just to the speaker in the webcast, and we are gathering the questions. Thiago, we have a question on the digital segment -- the perspective of the segment and whether you believe, the company believes that it will be stabilized the sales volume.

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

Today we have in the agenda -- any company has in the agenda, this combination of physical and digital we believe a lot in the -- that the mix is better than one single way. So our approach to digital is very much associated through those tools to take more comfort to the customers. We believe the customer that we will be better served is one that has physical and digital. We are the company that we serve well our clients in the physical aspects and we're investing in digital since 2016. So I believe that this is a tool that it comes to stay in to coexist with the others forms -- traditional forms of doing business.

A - Mara Boaventura Dias

There's a question here in relation to the shopping malls. And what are we seeing in October that gives an idea of the fourth quarter? Is it going to be closed to pre-COVID?

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

Well, we have to look, we have to be careful just as we're looking at the fourth quarter, especially, because the issue of shopping malls is very much associated with the number of hours they are open. So what we can achieve right now or we can anticipate right now is that looking at what happened in October, it's a confirmation of the trend seen in September. So sales that are in comparison -- comparing to the last year that are becoming positive.

A - Mara Boaventura Dias

And now about real estate. We talked a lot about farms. And how do we feel -- oh, Fazenda we talked a lot about Fazenda. How -- what do you think about the other two? Is it on the rhythm you were expecting and how long is Fazenda last -- going to last?

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

Looking at Fazenda Boa Vista, we still have a level of stock that we consider adequate so that together with terrains that we will be sold in Boa Vista village, we will serve the demand while we prepare the other one that's going to be constructed in that land bank that in the beginning of the presentation.

I put into context for you. I think in relation to sales -- current sales of Boa Vista village, it's aligned with what we were imagining when we launched the project. We are satisfied, this project is amazing, it's under construction and soon we'll be seen not only in animation, but we'll see in real life the first units being handed out. In Fasano Cidade Jardim with that a modification for those who know in detail the project initially we had imagined in area that would be dedicated to a shared property and we modified that. And at the same time, we developed some plants with larger areas and that has made it more attractive.

Now on the third quarter, we sold three or fourfold -- if I'm not forgetting anything what was sold on the second quarter there was a period that we stopped to make those changes from the standpoint of shared property and those units that are larger.

A - Mara Boaventura Dias

Now talking about airport, they asked us how the process of internationalization is and how much will this impact in the operation?

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

It's difficult to say how much it will trigger value. There is no objective figures. What we can say is that airport being -- if it becomes international, it will add one more service for the flights that will go or come from abroad right now to be honest and it's a moment that we have a few international flight tests happening because of restrictions that we have in many countries -- neighbor countries or even farther countries.

We have seen because our international flights generally speaking have dropped a lot. And we are the working to finish all the stamps to become international. The part of infrastructure that has to do with electronic reading of passport, accommodation is already installed in the airport. So we are following with this -- we're following this and aiming at become an international as soon as we have more details, we will make it public.

A - Mara Boaventura Dias

About the project of expanding shopping malls, could you talk a little bit about the perspective, if it's on time?

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

Yes, surely speaking it's all within the time frames, we are very satisfied with sales the levels we show just the moment ago of occupation rates in the two actives that are -- two assets; Cidade Jardim and Catarina not only occupation, but also the occupation cost that we have been able to deliver to the retailers. And at the same time, sales are quite solid for them and this is generating for ourselves good arguments to go on selling that part.

A - Mara Boaventura Dias

In Fasano segment, how our international units going?

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

The expansion right now, we are very much focused to pick up the plans we had for New York, Manhattan for those who are not following that the city was very much impacted in relation to the functionality of many things including the construction you had for the restaurant had to be reduced. In an important way, the residential part was ready in the beginning of the year. What COVID impacted was the speed of sales. On our end, we want to understand a little bit better in the next month. The impact -- more definitive impacts that COVID may bring for tourism segment, so that we can follow in our assessment of destinations to expand that brand.

A - Mara Boaventura Dias

I have a question whether volatility of dollar affects in revenue and expenses?

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

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The answer is yes. It affects a bit our revenue and our expenses. In retail, we operate a retail that is for important product. So, yes, it impacts there. In relation to flow -- tourism flow from abroad, if the dollar is strong that's good for that activity. So each one of our businesses behaves differently in relation to the dollar volatility. I don't know if I understood the question well. I thought volatility versus higher dollar, volatility is not good for any business in the long run, but in the short run, it may bring opportunities -- bunch of opportunities.

There's one more question that they always ask us if we can extend to other states. Actually we are present in other states like an Amazon where we have a shopping mall operation in by year stage where besides the shopping mall we have some stock not much, some things have adversity and in Salvador we have Fasano hotel. In Rio, the city we have the operation of hotels, restaurants and (inaudible) likewise. So these are the states beyond Sao Paulo where we are present right now.

Some main guideline, we may do some business in states that are not Sao Paulo but the core of the current activity and of what we see for the company in the near future is much more associated to Sao Paulo state then to the rest of all the other states of the country together.

A - Mara Boaventura Dias

One last question about the land we bought close to Fazenda Boa Vista, do you have plans of accelerating since residence sector is quite warm. So what's the perspective?

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

Now we don't have a date to launch that. We are following a sequence of acts that have to be done so that we can prepare the product and present that product to our customers. If the question is, do we intend to accelerate that business? Yes, but we have to respect this sequence of events so that they happen.

I think it's important when you look at what's happening in the countryside of Sao Paulo, this is not a situation that is peculiar to this place in the large cities of the world and even other capitals in Brazil what we saw was that with this digitalization of communication of work, of study, some families -- well, many families looked for quality of life in cities that are relatively close to those large cities and I believe that in this sense JHSF is well positioned in terms of having established products for that and also having a land bank that is quite expressive which is in Boa Vista complex and Catarina park on both sides.

A - Mara Boaventura Dias

Thank you, Thiago. I think we can close our teleconference, thanking all of those on Q&A. Thiago, it's with you.

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

Mara, thank you for helping with Q&A. And also I want to thank heartily the team of JHSF. It's a team of 3,000 people that could work more during the third quarter more than

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during the second quarter to follow with the advances of our entrepreneurial activities. So I want to -- on behalf of the administration board, of the steering board and of the directors, I want to really thank you for the dedication for the energy and for one more quarter of good results. Stay safe and we'll keep focused on doing the work that we have ahead of us not only until the end of this year but next year and the many years ahead.

And at last I also want to thank for the trust you have a 130,000 shareholders that the company has right now and reinforce that any doubt you have in relation to the company, the official communication channel is through RI, Mara is here with us and she's the head of that area for us. She can be accessed by email ri@jhsf.com.br or by the telephone 3702-5473. Thank you again for your participation in this teleconference and have a (Call Ends Abruptly)

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