

Y 2014 Earnings Call

Company Participants

- Eduardo Silveira Camara, Chief Executive Officer
- Jose Auriemo Neto, Chairman of the Board

Other Participants

- Alain Nicolau, Analyst
- Enrico Trotta, Analyst
- Luiz Mauricio Garcia, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon and welcome to the JHSF Participacoes Press Conference to release the results of the Fourth Quarter 2014. We have present with us Mr. Jose Auriemo Neto, Chairman of the Board of JHSF; Eduardo Camara, CEO and CFO; (inaudible) financial officer; and Marc Grossmann, officer.

We would like to inform you that this presentation will be recorded and participants will be in listening mode only during the Company's presentation. Later, we will begin the question-and-answer session when further instructions will be given. (Operator Instructions).

Before proceeding, we would like to mention that any forward-looking statements made during the call, during the business projection, operating and financial goals of JHSF are based on the Company's management and on information currently available to the Company. These involve risks and uncertainties as they are highly dependent on circumstances that may or may not occur. Changes in macroeconomic policies and legislation and other operational factors may have an impact on these forward-looking statements and lead to results that differ materially from what is expressed here.

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

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon to all of you, and thank you for being present at the press conference for the fourth quarter 2014. I would like to begin by speaking qualitatively about the results for

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the fourth quarter. And I will then give the floor to Eduardo Camara to follow the results presentation or results.

So far this quarter once again was a good performance in the field of recurring income, we have growth in all of the aspects in terms of the leases especially. And the Company is now beginning to harvest several results in the bottom-line, especially better. We also had as was expected and as we have mentioned an increase in terms of real estate development. I believe that it shows the credibility we mentioned four years ago of investing on the growth of this income has been our main business then, once again this strategy is being implemented with a great deal of (inaudible).

This transition (inaudible) challenges going to follow through on what is in our pipeline, and we have shown that once these undertakings are ready, they will present positive results for the company we inaugurated the outlay that is an important highlight, or we had good performance. And in terms of the pipeline, we have a growth not on the entrance of the shopping malls, we have two projects requires attention of the shopping mall which works underway, and so they are the important process. As it is the Catarina Airport, once again the company is very confident in the results that they have which is significant undertaking, but we are proceeding with great deal of confidence.

As far as the strategy of continued with investments in retail income was with investments that the company increased its capital. This is a result strategy that is most comfortable on a cost, that again is with the increase of cost of our related it is very difficult to make investment. And as an evaluation of results and by looking upon opportunities, we did an appropriate to have capital increase has been a positive step at this point in time, especially because of the company's strategy of continuing its investment.

I would also like to highlight that along with recurring income, the company last year increased and had a growth in its international area we had the possibility of continuing on with the process in Uruguay, we invested in two additional projects in New York, one that is in Brazil based on the avenue and another on (inaudible). And this of course will lead to changes on the Company processing.

And as part of our evaluation, we'll be very relevant and interesting, we do think that the right time, and in the future these investments will add to our revenues. Very generally these are my comments. I would now like to give the floor to Mr. Eduardo Camara for the presentation.

Eduardo Silveira Camara {BIO 2074637 <GO>}

Good afternoon, and thank you all this call. Without going into detailed figures that are there nearly for reference and for questions. I would like to underscore the good result that we have obtained, we have confined with our goals during the last four years for the recurring income division. You can see the greater relative ways that this division has as part of our business, and this is the focus of the company for the future it is materializing at present.

I would now like you go on to Page number five to see the relevant growth in sales. The growth sales was a positive impact, because of the maturation of the existing shopping malls in a duration of the Catarina outlet. Thanks to the success since we inaugurated this outlet, we are now undergoing the first expansion, and once again we consider the sales and relevant growth.

Going on to the next page, we have undertakings under operation that generate an NOI of 805 million[ph] a year. Investments that will be carried out very judiciously from the coming year of 201 million NOI of these investments, the Catarina and the Cidade Jardim shopping mall are already under development.

It is important on page seven to remind you of the airport works are according to our schedule and the financing that has been obtained from a qualification with the BNDES and the participation of a minority partner.

On Page number eight, you can see our indebtedness profile and the schedule for maturity. We seek long-term, and periodically we negotiate the lengthening of the existing debt. And this policy continues to be part of our strategy. And this is a very comfortable management profile.

In terms of our total indebtedness, as mentioned in the previous call, it is very important to understand where the debt come and where it is going. The allocation for business, the reputation of recurring income with an adjusted EBITDA of R\$151 million has a leverage of five times that turns to become reduced as new undertakings coming to operation. That Catarina Outlet itself had a great impact initially, and then we have the maturation and the enhancements being carried out in the other shopping malls, considerably growth of this EBITDA.

We have the (inaudible) activities had been grouped together and given the net sales and the adjusted EBITDA represents 2.38 which is a level being comfortable without taking into account new sales or future revenues. In the international business, the makeup shows us net debt that matches the value of the properties, once again getting us -- I urge you to -- business as this is how we calculate this in-house to just complete the management companies.

Having said that, I am -- as well as all of the others here to answer any questions that you may have. Thank you.

Questions And Answers

Operator

Thank you very much. We will now go on to the question and answers session. (Operator Instructions) Our first question is from Mr. Enrico Trotta from Itau BBA. You have the floor sir.

Q - Enrico Trotta {BIO 16742911 <GO>}

I have two very short questions. And I would like to speak about the corporate share that you have for 2015, which is your intention regarding the maturity of this corporate debt, are you going to roll over the debt, have you found any difficulties. And once again how are you going to amortize sales as the maturity is in the short term. And I would like to understand the rationale underlying the capital increase.

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

If the company is going to fall within the first low yield of the new (inaudible), this is their vision of minority shareholders and what was happened was that this is admirable regarding our debt, we have maturity of R\$457[ph] million in 2015. And as I mentioned in the presentation and as part of our strategy, the policy is still maintain long-term, as it is long-term in all of our indebtedness, and several times we have fair value issues and new fundraising to anticipate the settlements of the existing debt, lengthening the debt profile and our churn. This is the strategy we have perceived great deal of confidence in the partners in this company. And we are having an evolution in terms of the capital management in the company based on the policy and based on the confidence.

Regarding your questions in terms of CapEx are increased. As mentioned by Jose Auriemo, this Company's vision that access point in time, given the costs and opportunity, what we are seeing more convenient in terms of capital for the company with the capital increase. And adherence of minority shareholders are now -- we do not have a perception on this as this was announced two nights ago, we will only know more in the coming weeks.

About the possibility of not having a minority shareholder becoming part of that this, we hope that this will not happen, we hope that the minority shareholders will see the value the way we see it. And I will give the floor to Jose to refer to this. Once again we hope this will not happen, if that does take place it has to then foresee in our regulation, then we would give a term of six months to address the revenue situation. Jose?

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

From the view point of the shareholder, we're always going to pick out what is better for the company in the medium and long-term. We still have a strategy which is somewhat longer horizon, and as you can see the projects that we have a project to grow beyond inflation and that are constantly adjusted in terms of the strategy and follow up these projects that have to be built. We had an expensive growth in CDI in the last quarter and evidentially this does have an impact on the Company's strategy, but the projects have growth returned. We are cautious as you know, and we are definitely not going to invest in something that would not make sense.

But when we look at the firm projects and the negotiation and the lengthening, there is a part of the dimension that refers to our international division. Part of that debt is evidentially part of the strategy and the deadlines in strategy. And once again we're fully confident that we are fully confined with these strategies (inaudible) and by having confidence in the projects we're convinced growth will come with a very healthy revenue

growth -- recurring growth and not as we have had in the real estate which is always more challenging.

Q - Enrico Trotta {BIO 16742911 <GO>}

Thank you very much.

Operator

The next question is from Mr. Alain Nicolau from Banco Bradesco BBl.

Q - Alain Nicolau {BIO 17913545 <GO>}

Good afternoon. And I would like to go back to your purchase pipeline to gain better understanding, you mentioned that you are expanding the Catarina Outlet, another shopping mall. Perhaps you could explore this further and in terms of follow up, what is happening with the funding of Catarina Outlet, how is the disbursement -- smaller, do you had returns?

Once again, these are two questions in one, the pipeline, priorities and the funding for all of us.

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

Alian, in terms of priorities, the Catarina Outlet as you mentioned itself is a proportionally small amount with a rapid return. For the shopping malls, the volumes are not that expressive, and they have been contemplated in our cash flow for financing through our own resources. Regarding the other projects, we have been very judicious as I mentioned before to ensure that we have the match between cash generation and convenient market moment to be able to observe there.

Once again, this is proceeding at a somewhat lower pace, and throughout the year we hope to have great another feasible growth in some markets in firm. But we do not have a potential for the other shopping malls where the exception of other shopping malls and Catarina. And of course the airport construction is a project that is underway and should be developed and concluded at the end of 2015.

I was referring to the recurring income project in the airport, everything is proceeded positively, normally according to schedule, with devoted funding and New York is in the similar situation. Once again, everything was in our scheduling. And referring to the (inaudible) two and three, and extension of other shopping malls once again is a issue, that we are reviewing and retailing constantly.

And New York -- are there any leased annual fundraising there or it is the funding that we collected sufficient for both processes in the store and medium process we have sufficient funding. Thank you very much.

Operator

(Operator Instructions) The next question is from Mr. Luiz Mauricio Garcia from Bradesco. You have the floor Mr. Garcia.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good afternoon. And I would like to ask a follow up question based on our land side. Another point that I noticed was the occupancy rate of Metro Tucuruvi and Ponta Negra. What draws our attention is the drop in Metro Tucuruvi, because this is a shopping mall that seems to have great demand, if you could refer to the reasons that led to the drop in the occupancy rate in this asset. And in Manaus once again the problem was probably due to the slowdown in employment.

Another question refers to the commercialization of the Catarina Airport. You have mentioned that you're holding negotiations with interested parties. If you could give us more color on this, and what would represent an initial, stable revenue for this project, if you could mention some additional figure?

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

Mauricio, this is Euduardo. I believe that -- what is more difficult. The relevancy of occupation rate with Ponta Negra. Ponta Negra was part of our movement that were undergoing to reposition our mix to ensure that shopping malls becomes part of our DNA. And this creates the need of having a high turnover, so we're working with a very popular shopping mall. It's at that (inaudible) a gigantic shop in the future. Initially, we have had the vacancies, we have had positive conversations with stores that will lead to an improvement and a better mix positioning for this undertaking.

We have not seen an economic impact. I think that the industrial activity in the Manaus area is growing at a relevant phase. And the stores that are part of the mix have relevant endpoints in sale, as present was simply undergoing a readjustment in the operation, the shopping that is going from this second to third year, we are referring to a drop of 0.2% [ph]. This may be due to a technical situation and exchange of our store in minor issue with a minor relevance.

When you look at the annual NOI observed the different sales growth when you look at the revenue than the occupancy place that figure out outcome through it's not significant. In the insure was not the figure it would simply, it will maintenance when we look at other players during the fourth quarter allow the secure has shown an increase in the occupancy rate. They have a same day historical record. And so it's third person consumer of the third person. Simply to complement the Ponta Negra, as you once you bring the international towards other shopping mall, they will act for instance that the coroner and that coroner is already occupied.

And what is important in the shopping mall is always to enhance the mix the international store will shut down. So meter and one have better leasing that's also in the long term. Therefore I think, Ponta Negra, see naturally we didn't have adopted this strategy and concentrate in the shopping mall where we have with standard domestic brands. So it's something some you heard of -- in the market of Manaus. And then the last three or four

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months, we have self equipment for international brands as well. This is the segment with significant growth.

Other shopping malls have come about in the country, once again focused on international brands, a large number of international brands. Consequently accompany with the deal made and it is a factor that possibility and that drive has began the movement and this has had an impact on our quarterly results. When it comes to the airport, well, we first day, it's the following we have health conversation with other international operators, and we are undergoing negotiations with international operators. The health strategy so far is being evaluated the contracts somebody as your lead all of this have to be in place.

Well, this will be in the structure for fueling what will happen to the services that will be rendered and all of us have not being fully finalized. The strategic design is still underway. We cannot do everything from obtaining -- we cannot close one step without having the other step organized. Therefore we are moving forward and strategy will become ever clear for the market.

Q - Unidentified Participant

In terms of figures question. The strategy still has not become stable initially.

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

Are you referring to the Airport?

Q - Unidentified Participant

Yes.

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

In the third year of operation, at that time it was a 123 million and this is the mix of revenues from services, landing, take off, fuel and displacement and hanger.

Q - Unidentified Participant

Thank you very much.

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

Thank you for your question.

Operator

The next question is from Mr. Lucas Benzeles from TS[ph]. You have the phone.

Q - Unidentified Participant

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Good afternoon and I have two questions. The first, referring to the development of real estate factor. Could you give us more details on the sale of your inventory. If you are thinking about and about selling off the projects such as your central course and detailed on this gives your forecast. So once again, what is the cost you see for 2015 and 2016.

My second question refers to the recurring division.

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

This is going to have to align the future projects to the (inaudible) so as you have the necessary to alter some of the projects. Looking at the future, let's hear this from Camara.

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

In terms of our developments, our strategy during the last four years has been so focused fully on recurring income. Our priority is recurring income, and in recurring income we have some assets under operation with a net operating income of R\$220 million, we have started with investments where such as the expansion of the Catarina Airport, expansion of (inaudible) Airport and the New York activities. We have investments underway and already fully funded the other projects.

As I mentioned, formally I've been reviewed constantly the -- undergo constant restatement, so that we can find the more appropriate moment to implement them, which means that at this point in time we have not defined what will happen to these projects.

You also asked about for forecasted demand and a sector of division. I prefer not to speak about other people's business and just focus on our own JHSF product, which can build under the support by creativity concept and value of the product that ends up having greater resilience compared to the other segments in this activity. Our clients are there, they negotiate a positive point that in historical areas with the appreciation of the dollar and depreciation in reals.

These investments have increased, this is something positive, and we are optimistic at this may repeat itself. But, once again we do not have the forecast for new launches as it is not our strategy. Our strategy is to focus on recurring income. Another part of your question refers to inventory. We have limited inventories, we have one or two units in a building. That is something minor. And we have data on our inventory make-up with the exception of our Bela Vista, which is a large project of 11,000 square meters with sales that are greater than R\$1 billion. The inventory is not a relevant issue even in inventory, and so it is at only 5%.

Q - Unidentified Participant

Thank you very much.

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

Thank you for the questions.

Operator

With this we would like to end the question and answer period. And I would now like to give the floor to Mr. Eduardo Camara for his final consideration.

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

We would like to thank all of you for your participation, for being with us. And we thank you for your questions, so that we could give you additional clarifications after the web conference. The Company's Board and the Investor Relationship team once again is at your entire (inaudible) for any questions you may have. Thank you for the participation on the web conference and here. We would like to thank all of you participation. Have a good afternoon.

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