

## Q4 2018 Earnings Call

### Company Participants

- Thiago Alonso de Oliveira, Director, Chief Executive & Financial Officer

### Other Participants

- Georgia Jorge, Analyst
- Roberto Waissmann, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon. Welcome to JHSF Participações Conference Call for the Fourth Quarter of 2018. Here with us, we have Mr. Thiago Alonso de Oliveira, Chief Executive Officer and Investor Relations Officer; and Mara Boaventura Dias, Investor Relations Manager.

We would like to inform that this presentation is being recorded and that all participants will be on listen-only mode during the company's presentation. Subsequently, we will have a Q&A session when further instructions will be provided. This event is also being simultaneously transmitted via webcast and can be accessed through the JHSF Investor Relations website at [ri.jhsf.com.br](http://ri.jhsf.com.br) and the MZiQ platform where the presentation is also available for download.

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

Now we would like to give the floor to Mr. Thiago Oliveira that will begin the presentation. Mr. Thiago, you have the floor.

### Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon to everyone. Thank you very much. Welcome to our earnings results conference call.

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We presented a presentation and essentially this gives figures from 2018 and compared to the figures of 2017. Should you have questions regarding the comparison of the fourth quarter of 2018 with that of 2017, we will address this point during the Q&A session.

So, 36% our net revenue. We would like to highlight our growth in the part of real estate incorporation. Now, when we talk about gross profit and highly related to the growth of net revenue, there was a positive contribution from the corporation area.

Now, in terms of EBITDA growth of 154% between 2017 and 2018, driven by an improvement of all the business segments, we improved a recurring income hotels, restaurants, expenses of the holding, and also in the real estate business.

Now, due to the measures that we have taken since the year 2016 and we accelerated that in 2017 and 2018, we lowered significantly the indebtedness of the company. That, together with the drop of interest rates, allowed us to drop 21.5%. The negative financial results of the past period and with some of these four groups of the revenue, gross (00:03:58), adjusted EBITDA, financial results, we grew 818% when we compare it to the last year.

Now, giving you more details regarding our operations on page number 4, we're presenting the evolution of the Mall performance here. We prepared the charts that compare the evolution of the fourth quarter of 2018 and compare to the fourth quarter of 2017. And here, it's worthwhile to highlight this because we have to understand how the fourth quarter of last year was much better than the average of the other quarters. So, when we see, for example, store owners sales, we see a jump of 11.2% on a quarterly basis. And we see a comparison in a yearly basis. It was 9.2%.

This means that in 2019 at a pace very close to the fourth quarter of last year than what we saw during the second and third quarter of last year when we had the effect that bothered the shopping mall activity, that was the truck drivers' strike and the World Cup. Now operating indicators, we can also see the same evolution when we compare the fourth quarter of 2018 from 2017 which shows us even more sound figures that were the yearly numbers.

Here, we are highly satisfied with our yearly figures, but we're even more satisfied with the evolution of our quarterly figures in our occupancy cost. We had another period up and we improved the efficiency of occupancy cost of our merchants. We have fostered sales, we're trying to help in sales to reduce the cost of condominium without compromising the spread. And this has presented good evolution where there is a win-win situation between the company and also the shop owners. Now, occupancy rate doing well (00:06:16) during the fourth quarter there was an evolution of a 95.3% and 95.8% of occupancy rates for those that have been following us for a long time period.

Here there are vacancies and we have focused and we have given attention to Ponta Negra Shopping in Manaus -and we calculate with the continuous improvement of the Brazilian market during 2019, I believe that there will be an evolution in terms of occupancy rate in Ponta Negra Shopping and also throughout the company.

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We're now going to page number 5 of our presentation. From the third to the fourth quarter of last year, we launched our Cidade Jardim fashion. That is the tool that we built. It is a digital portal. It has the inventory of the shop owners and these are individuals that want to buy these products, and these products are not within the brick-and-mortar shopping mall. The results that we have seen have been highly promising. We have improved week-on-week, the amount of shop owners that are connected to this platform. We can also see new shop owners or new retailers bringing their products, so they are sold through this platform. And this platform is a reference platform for people of high income.

Now, when we go to page number 6, so we can see what happened in terms of Hotels and Restaurants. What we saw was that in terms of operating indicators there was a growth in all the operational indicators, and growth here that - they are very robust. What we have here is a combination of recovery of economic activity and here with new units. For those that didn't follow us throughout the year 2018, we opened in September, Hotel Fasano in Belo Horizonte and another restaurant, and in December a hotel in the City of Salvador also with a restaurant. So, part of this growth comes from the operation of these two units. But this is a result of a recovery of activity and this is something that has strengthened throughout the fourth quarter of 2018.

Now when we go to page number 7, we also - we significantly recovered in our - in the real estate development, and this was driven by sales in Boa Vista. Fazenda Boa Vista is a product that suffered, suffered until the middle of last year with low index of confidence from our target audience in this country and because of the high interest rates as the interest rates started to drop throughout 2017 and they maintained themselves low and we saw an improvement from the confidence index point of view, there was important recovery in terms of sales and therefore our revenue improved and our operating results also improved.

Nevertheless, this recovery - well, throughout last year, the company launched a product that we call Sport House. This is dear to the triathlon community. And in the - we've sold about 30% of the units that we launched which shows us that there is a repressed demand for products in this type of segment, and we are preparing a new launching for the year 2019.

Now, when we go to page number 8 of our presentation, throughout the last conference calls, we have given you a picture report of the development of the construction of the airport. Currently, we're working on an airport equation of 6,000 square meters of hangar, 18,000 square meters of patios, and 22,480 meters of runway. In terms of runway, I believe that the pictures allow us to see our paving level and the beginning of the construction of the hangars that we can realize through all the pictures that you can see here.

So we follow with a plan that will allow us to open this airport at the end of 2019, and we will continue providing you with information in terms of the progress of this construction.

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Now when we go to page number 9. Here we have a summary of the indebtedness of the company and also of the evolution of we had in terms of net debt/adjusted EBITDA. Throughout 2018, we dropped our gross debt BRL 511 million, a 50 basis points drop in the average cost of our debt and due to the growth of the adjusted EBITDA and the drop of the net debt, we reached the level of 3.1 times net debt for adjusted EBITDA.

I will give you the context within this breakout of net debt. We're considering something reduces the debt our cash equivalents of the XP Mall with whom we carried out the transaction of the mall and 130 that are within our accounts receivable that are associates to the XP Mall fund. Our expectation is to follow and see what is happening in the market. And in the upcoming days, we will have the conclusion of our fund - fundings and we believe that we will have liquidity event, and we will receive the accounts receivable that - and the fund is - capturing the funds right now.

Now to conclude this page here we have a profile of indebtedness of long term, currently here taking some actions because we want to promote the maintenance of the company's debt profile in the long term. And also once we have indicators that are more comfortable in terms of leverage, we will also be able to lower our financing costs. And at last, on page number 10, for those that haven't followed this closely, throughout the fourth quarter, we ended the sales transaction of minority shareholdings in shopping mall for the XP Malls fund. This is a transaction of approximately BRL 650 million. We have already received the balance that was published around BRL 430 million out of which BRL 300 million were used to pay our debt and the rest is in the company's cash equivalent position.

Now, within the transaction context, we - our cash equivalent position is BRL 131.6 million that are quotas that we bought in the primary offering in October. And at the same time, we grew BRL 128.9 million or position of accounts receivable that is one of the two installments that the fund had to pay till the company once would have its (00:15:25) liquidity event and we believe that this will take place in (00:15:31). We have not (00:15:32) it in the balance and auction of BRL 11 million and once we receive it, we will include this in the company's cash position due to the transaction that took place on October 19th.

When we ended the quarter, the amount of days where we - that could be compared to the same period of 2017, we're only 19 days. So, 71 days we had lower share in the shopping malls and we still presented a better result than that of the fourth quarter of 2017. Therefore, the conclusion of this transaction allowed us to maintain the control of our development. Although, we have a share below 50% and this is according to the contracts that were signed with XP Malls. We were able to improve our capital structure. This is something that I mentioned at the page before and I believe that once again we were able to demonstrate to everyone the quality of the assets that our company has, how attractive these assets are, and also this is what allowed this transaction to happen, and this is why we've had all of this transformation.

So, before we have a Q&A session, on page number 11, here, we have a general summary of some indicators and I will mention them very briefly. And I would - please like you to read them.

So, if it is the case, we can talk about these pages during the Q&A session. I am at your disposal to answer any questions you may have.

## Q&A

### Operator

Thank you very much. And now, we will start our Q&A session. Our first question from Mr. Roberto from Bradesco BBl. Mr. Roberto, you may pose your question.

#### Q - Roberto Waissmann {BIO 20589306 <GO>}

Good afternoon, Thiago. Thank you very much for the call. Congratulations for your results. I have two questions here, one regarding the shopping mall segment. Here, we have public data and we could see that all the four shopping malls had very positive results in the same-store sales and same-store rent which is very good. Cidade Jardim had performance out of the curve. This is a double-digit same-store sales and same-store rental that was around 18%. This surprises us. If you could explain how this growth took place, especially Cidade Jardim.

Then my second question is regarding the development. You had very good results. If you could please give us an idea what will be - the operational results will be for 2019. Will you continue with strong sales, and what is going to happen to Fazenda Boa Vista?

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

Thank you very much, Roberto, for your questions. Actually, I believe that regarding the performance of our shopping mall, it is - this is why we're highly satisfied with the results. We have very sound indicators in terms of growth, especially in Cidade Jardim shopping mall. There's a combination of three factors here that helped us to explain this performance. Number one, well we have a number of stores, contracts of variable rentals. So as the shop owner sells more, they pay more in terms of rent contract.

And this was one of the aspects. So when the shopping mall sells more, we sell - we receive more variable rental. So - and throughout the year and not different from the fourth quarter, we also had some actions to renew contracts, and some of these contracts generated something that is the minimum spread. So this was another very positive evolution that we observed throughout the fourth quarter. Now this is regarding Cidade Jardim shopping.

Now going to your second question that was the part of the development, we had a year of gradual sales growth because we were expecting the country's macroeconomic situation to improve and we wanted the confidence index to improve as well. So we started 2019 with the same feeling that we had at the end of 2018.

Now from the full - from sales point of view, there is certain seasonality during the first quarter that is explained by a period of vacations that takes out of the city of São Paulo part of the population would be our target public, our target audience. And also, there is

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also - then we have second relief of sales because of Carnival. There's a suspension of sales. Now we see - now what we have scheduled for sales during this period is highly aligned with what we had established. I'm not going to give you a guidance regarding sales.

While we projected an important volume of sales growth in comparison to last year and although there is a difficulty that we have during the month of January and now that we have a Carnival more towards the month of March, we're totally aligned with what we had scheduled for January and February.

**Q - Roberto Weissmann** {BIO 20589306 <GO>}

Okay. Thank you very much.

## Operator

Our next question from Mrs. Georgia from Banco do Brasil. Mrs. Georgia, you may pose your question.

**Q - Georgia Jorge** {BIO 20104788 <GO>}

Good afternoon. Congratulations for your results. I have two questions in the same-area sales is highly aligned with the same-store sales of the fourth quarter of 2018. I would like to know what you're doing in terms of shop owners areas.

And my second question would be regarding the occupancy rate that is 95.8% during the fourth quarter, do you believe that the shop owners are more confident after November last year? Could you give us some information regarding these points?

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

Georgia, thank you very much for your questions. I'm going to start by the last question. That is quicker. Then, I'll go to the first question regarding the occupancy rate. Yes. Everything is much better. The flow is better. The conversations with new shop owners have had excellent flow. I believe that we are much better than in the past. So yes, we are still working to occupy the very few areas that remain within the shopping mall that we operate.

Now your first comment that was regarding same-store sales and same-area sales, now, there is a challenge that is new store sales that perhaps is something that is playing why we've been so efficient in the sales growth of our shopping malls. We have promoted through the mixed team frequent exchange, so this has represented that the shop owner comes in and sells more than the shop owner that left. And this has driven this more the new store sales. I believe this is merit of the product positioning due to a proactive action of the mixed team because now they understand and they anticipate trends. And when they bring the trends inside the shopping malls, well we've had a sales result that has been higher. Now, every time that the shopping mall sells more, all the stores in the shopping mall sell more and this is a virtuous cycle (00:26:01) that we see working right now.

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## **Q - Georgia Jorge** {BIO 20104788 <GO>}

Okay, Thiago. Thank you very much.

## **Operator**

So as we don't have any questions right now, I would like to read the questions that I received through the webcast. Here we have a number of questions talking about dividend prospects.

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

Now dividends is a matter that will be part of the management proposal for the general meeting, ordinary meeting. We will consider the evolution of the company's indicators and when is the right time to propose this to the management to submit this to the general meeting. In a number of days, we will make this proposals and then - and this matter will be addressed.

## **Operator**

I would like to see another question that we received through the webcast. It is a question from (00:27:31). Good afternoon. In your release, I could verify that the value that will be practiced are of BRL 5 million, this value. This encompasses plot of land and construction.

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

Well BRL 5 million - this is a complete project. This will be plot of land and house, and when we're going to deliver this will be 18 months as of the signature of the contract.

## **Operator**

Here, we also have a question from (00:28:07) that says the following regarding the restaurants. Could you elaborate on the measures that Fasano carried out to optimize the customer's experience? And e-commerce, Cidade Jardim, how will this shift from store work?

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

In reality, these are three questions, and I'm going to merge the ones from omni-channels with sales from the site to help you, and then we will talk about Fasano.

Now regarding Cidade Jardim Digital, this is the first product that has the option of click and collect and click and delivery. So answering your question, yes, we deliver at the household of the customer if this customer is in the São Paulo metropolitan area in two hours at the receipt of the order and when they decide for this type of delivery.

Cidade Jardim Digital is our tool, and it is an omni-channel tool, as well as other tools that we have been using for some time. This could go through private shopper, through the shopping magazines, and this platform is here to complement the consumption

experience of the shop - of the customer and also strengthen the tools that we deliver to the shop owner to increase the turnover of their inventory.

Now, regarding Fasano, you posed a question regarding the experience here. I believe that Fasano today, I believe that the main brand in Brazil that gives us the consent of comfort, quality. So, everything is associated here.

We are constantly carrying out actions to promote these values of the company. It could be in restaurants or hotel service or also with the expansion of the network that is underway, I believe, that in the past years and something that we vision for the future years.

Yes. We have already announced two new units in Brazil, one in Trancoso and the other one in the city of São Paulo. These units will be opened. We are not discarding the opening of other units in Brazil and I believe that during the past months we have prospected new opportunities outside of Brazil. These opportunities are more focused in the United States and in Europe than in any other regions currently. So, in the midterm, we will see a growth of hotels going towards these regions.

## Operator

Now, I would like to - I believe that we have one more question coming in. Mr. Luis (00:31:34) from (00:31:35) would like to pose a question. Mr. Luis (00:31:37), you may pose your question.

Good afternoon to everyone. I would like to - these are three questions. My first question is regarding the expansions in the Shopping segment, and I would also like to know if there is a schedule for opening new shopping in Brazil. The shopping that's an expansion of Cidade Jardim, the plot of land in front of the Cidade Jardim that I believe that you obtained the construction licenses. If there was some type of schedule established for this area that will be developed and also for the residential area around Cidade Jardim.

Now, when we talk about this regarding shopping malls, now a question in terms of logistics, you have a big part of land around the airport and I would like to know how much space do you have to build this logistic area and if there is something under negotiation and what do you expect until the end of the year because the airport will be operational by then.

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

Luis (00:32:57), thank you very much for your question. I would like to start with the last question that is of logistics. When we started building the airport project, in reality, we started planning a 5,000 square meters for - 500,000 square meters. This is a gigantic area. This is the second largest infrastructure - construction site and it's second to the Belo Monte (00:33:37) and how we also moved the earth. We worked within our plot of land. We have to cut peaks of mountains and covering valleys and we had covered a great plateau. The plateau that was created is not only for the airport activity but there is still remaining area that has already gone through earth moving of 800,000 square meters



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and 2 million square meters that the company wants to - wants this to become logistic warehouses. This business area it is an area that we've started to emphasize at the end of last year.

And during this moment, a major retailer that was looking for an area in the metropolitan area of São Paulo because they wanted a BTS (00:34:58) warehouse. There is a demand for this. And due to the experience that we had and due to the fact that now that the earth moving activities have ended and now we have a clear view of logistics. Now we have our commercial team is aware of this area. And now we are being more proactive in the market and we are looking for customers who develop BTS (00:35:38) contract with them - in this area.

I would also like to highlight the BTS (00:35:45) because this is a capital risk management decision. One, we want the contract. And as soon as we have the contract, we need a funding - we need funding to build the building in a type of financing that matches amortization flow of financing with the contract, the leasing contract of the warehouse.

We believe that it is a safe way of expanding this area as we're talking about 2 million square meters of land that we can turn or convert this total area to around 1 million square meters of warehousing in a market - average market of BTS (00:36:37) we're talking about BRL 20 per square meter for warehouse per month. We're talking about a potential business of BRL 240 million of revenue per year.

So this is the logistic growth that we see right beside the airport. And this is 45 kilometers of the highway (00:37:12). This is a very important highway in terms of logistics and it is just one hour from downtown São Paulo. So, and this is why their companies are looking for us and now we're looking for new opportunities. Now, let's go to the other questions regarding our shopping, our working plan. We will deliver the shop to the shop owners in 2019 and between the delivery of shell and opening of the shopping go from three to four months.

Now, in Easter I believe that our shops will be in operation. You posed another question that was - you asked us about the other expansion after building shops. Subsequently we will see the expansion on Catarina and only after this we will see the expansion of Shopping Cidade Jardim. You questioned about the residential part.

During the past months or during the past weeks, we've seen the market that is more robust in terms of high-income residency. In the state of São Paulo, we had already signalized the launching of new real estate products would happen, when we would have a better visibility of demand and better macroeconomic conditions. We are feeling more comfortable as days go by regarding the future. Now, so the Catarina expansion is for 2020, 2021. I did not establish a day for Cidade Jardim. Our intention here is to initiate the reconstruction work of Catarina in 2019.

## Q - Operator

Thank you very much.

There are many questions coming from the webcast about the airport. I'm going to try to read (00:40:05), I would like to know how João Doria, our governor, when his position on Campo de Marte Airport can affect your airport.

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

Well, when we started building our airport, we didn't think about the closing of Campo de Marte, the privatization of (00:40:30). Any of these things will create a displacement effect of the amount of business aircraft that remain in these airports. And this, as a matter of fact, can generate greater demand more quickly to the Catarina airport.

Let me see another question regarding airports. The questions regarding airport are repetitive regarding opening information. So we are working to deliver this airport till the end of the year. And with this, we will start 2020 with our airport operational. Now, we will go back to other questions. I believe that we have no questions. Now, I would like to give the floor back to the operator.

### **Operator**

So currently, we're bringing our Q&A session to an end. We would like to give the floor to Mr. Thiago Oliveira for his final comment.

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

Well I believe that my final comments are just to thank you. To thank the entire team of JHSF for the results that they delivered last year and we will continue 2019 with this amount of energy. And if we have more tailwinds, we expect to be here at the end of the year with a message that will give satisfaction, the same satisfaction that we are feeling today. And I am not feeling this only - not only me the one that feels it - our entire team is feeling this because we make a great effort to do what - to do this. Thank you very much. If you - that we weren't able to answer any questions during the call, I place myself at your disposal as well as our team places themselves at your disposal. Thank you very much and have a very good afternoon.

### **Operator**

The JHFS 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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