

Y 2012 Earnings Call

Company Participants

- Jose Auriemo Neto, Chief Executive Officer

Other Participants

- Luiz Mauricio Garcia, Analyst
- Roberto Browne, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the conference call of JHSF to announce the results of Q4 and the year 2012. Today with us are Mr. Jose Auriemo Neto, CEO; Mr. Eduardo Camara, Executive Vice President and IRO; Andre Luis Rodrigues, CFO and Mr. Marc Grossmann, IR Manager. We would like to inform you that this event is being recorded with simultaneous translation into English. All participants will be connected in listen-only mode during the company's presentation. Later, we will begin the Q&A session, when further instructions will be given.

(Operator Instructions) This event is being simultaneously broadcast over the Internet via webcast at www.jhsf.com.br/ir. The event will also be available for replay after it ends. We would like to remind participants on our webcast platform that you can ask questions that will be answered during the Q&A session. The slides of the presentation are available on the Internet for download at www.jhsf.com.br/ir.

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, financial and operational targets and projections are based on beliefs and assumptions of JHSF management and on information currently available to the company. Forward-looking statements are no guarantee of future performance, as they involve risks, uncertainties and assumptions and refer to future events, which depend on circumstances that may or may not materialize. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future results of the company, thus leading to results which differ materially from those expressed in such forward-looking statements.

I would now like to pass the floor to Mr. Jose Auriemo Neto, CEO. You may proceed, Mr. Auriemo.

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon to all and welcome to our conference call to announce the results of 2012. For those of you, who are following the presentation available on our web page, we have the highlights on page two, the highlights for the year 2012. The gross margin was slightly better than in 2011 and the gross margin was 49%; and the adjusted EBITDA margin was 34% that is also slightly better than 2011. Net income was 184 million; we had BRL590 million in cash and the net debt was 2.4 times our EBITDA and that was in the region of BRL300 million.

The year was marked by major investments in recurring income, which is the strategy of the company. As we have been emphasizing in the last few calls and in the last few years, we want to grow significantly our income generating area by 2015. In this year, we made relevant investments in Bela Vista, in the Tucuruvi shopping mall, in Ponta Negra, in Catarina Fashion Outlet mall and also on the expansion of the Cidade Jardim shopping mall. We opened the Bela Vista shopping mall in July 2012.

And as regards real estate development, we delivered Praca Vila Nova, Benedito Lapin and Vitra. Vitra and it still has works going on. We also opened Bela Vista mall in July 2012. Also, one of the highlights of the year was the acquisition of a building in New York and this has to do with our vision for the future. We want to have international investments as well and these investments are made to meet our Brazilian customers' needs.

We made an investment in Punta del Este and I believe, the investment in New York is going to be in line with this vision. We launched approximately BRL500 million in terms of PSV, we sold 555 million. This could have been better if the process to approve some projects had been faster, but the positive aspect of the launches was that we were able to maintain a very good level of results, although, we were able to launch all the projects we wanted, all the projects we had in the company's pipeline.

As regard the hotels, we grew 12% in terms of revenue and in retail, we grew 37% in terms of revenue. These two areas are proportionally small inside the company, but they grew significantly last year.

The year was also marked by close monitoring of schedules and the impacts on the costs of construction works. In the year 2012, we saw the economy with positive eyes, we faced no difficulties or downsides relating to sales or to the economy at large, but the challenges regarding construction costs are there. We have to invest in initiatives to maintain our works within the schedule and this is something we focus very closely on. This poses an additional challenge in terms of training, in terms of incentives, in terms of the alignment of variable compensation and this is something, we believe, we have to focus on.

In 2013, we are going to face a similar challenge in the income generating segment. We will continue to invest, we will open the shopping malls that are in the pipeline. In terms of launches in real estate, we have to work on the approval and licensing of the projects that will be launched.

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In Q1, the level of launches maybe lower, but throughout the year, we are going to see relevant and significant growth in the real estate area. And we believe that real estate development will contribute results at the same level of 2012. The deliveries also of this real estate development project require great efforts to get price and quality right in our final product.

On page three we see the figures for revenue, income, EBITDA, gross and net profits, which are in line with last year and the highlight here was that we were able to maintain good results, even though we increased investments very heavily in the area of recurring income.

On page four; and speaking of recurring income you will see the investments that we made are bearing fruit. There was a substantial advance in terms of gross revenue from 63 million to 97 million. And then EBITDA grew 62 million and the adjusted net income from 21 to 38 million. When we speak of increasing income, we have the guidance of reaching 430 million in recurring revenues coming from that type of enterprise. Our current portfolio, including the Tucuruvi shopping mall is included in the portfolio, the construction has finished, we are waiting for the license and we're moving from 47 million in 2011 to 171 million in 2012 with works concluded as well.

And the idea is to open Ponta Negra, Catarina and some others to reach to 2013 with 230 million in revenues in the recurring income division. So in line with our expectations and this will be the main division of the company by 2015.

As regards the projects which are underway, Cidade Jardim is still growing in terms of sales, growing very strongly. We had an 18.5% increase in Q4, 2012 vis-a-vis Q4, 2011 and 15.2% in 2012 vis-a-vis 2011. As regards the enterprises and the projects that we are going to open. And also, I just wanted to highlight Bela Vista. Bela Vista has been growing its revenues and has been consolidating itself. It opened six months ago, but we see that it has been growing in terms of revenues in the city of Salvador. In 2013, this shopping mall will be contributing even more significantly to our bottomline.

Also on the recurring income we have some projects in the pipeline. I would like to highlight the executive airport. We are waiting for the beginning of the works and the project has a technical and engineering part progressing and at a very advanced stage. The company's strategy is to focus on this project once we obtain the authorization to begin the works, because we want to finish the project within the initial deadline.

We haven't disclosed any guidance in terms of the revenue it is expected to generate, but once we begin the works we are going to give you a more clear update and reference about the contribution expected in terms of EBITDA and the bottomline for the next few years and also of the investments and the expected return of the project. We also mentioned that this project because of its size, it might require some investment from a party, from a financial party, a partner that will be a minority shareholder in this project.

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In the development business, the highlight is really the contribution to the bottomline made by this area. This area has been performing really well in the last few years and we were happy to be awarded the prize of real estate developer of the year by PINE and also Poli/USP and we were also awarded a prize by the Epoca magazine as the best company in the real estate industry. These two prizes attest to the hard work of our associates and attest also to our persistence in looking for projects that allow us to offer unique products in the market.

As regard the landbank we have the launches, which are expected for this year and we have a pipeline for Fazenda Boa Vista, which is very important for us. The Cidade Jardim also, we have another project, Residencia Cidade Jardim also the works are underway. There are two or three apartments for sale. We have a new project on Mena Barreto street, so we do have challenges for 2013 in terms of launches.

As regards the financial analysis, we have been able to maintain an accounts receivables that is expressive in the region of BRL1 billion and they are concentrated primarily in the years 2013 and 2014. In this portfolio we have performed receivables, which are the ones of those projects that we have delivered already and the company has decided to maintain performed receivables often times in our balance sheet, because of the profitability of this portfolio of receivables when we compare them with the possibility of selling them.

On page 13, we seen an increase in the level of indebtedness, which was expected because of the major investment in the area of recurring income. We believe that this is the right time to take advantage of the economic scenario and the positive outlook for the economic scenario and the positive outlook for the economy to consolidate this portfolio of shopping malls, which is extremely relevant to us.

And we have been maintaining 2.4 times the EBITDA of the company as per the deduction of the performed receivables. So this is a very comfortable level of indebtedness, and for 2013 and 2014, we expect that these shopping malls that are being built should begin to operate, thus reinforcing our EBITDA.

We have a metric that we use to measure our asset that is the net asset value and we are very conservative when we measure that, so we book all of the amounts at the acquisition price. The net asset value account does not reflect any expected gain for future developments of our lands already bought and we have the value of BRL14.54 per share. So we do believe that the shares are lagging behind in terms of market price and in terms of guidance for NAV and recurring income and the figures for the airport Catarina. We don't have the figures as well for the airport Catarina.

So this business' enterprise is not reflected here. So as these new projects are launched, developed, we believe that there might be a relevant variation in the net asset value, which is a criterion we use to analyze the company.

So these were the comments I wanted to make and we now remain available to take any questions you might have. Thank you very much.

Questions And Answers

Operator

Thank you. We will now begin the Q&A session. (Operator Instructions) Our first question comes from Mr. Gabriel Cotellessa from Goldman Sachs. You may proceed, sir.

Q - Roberto Browne {BIO 16864913 <GO>}

Good afternoon. This is Roberto speaking and my question has to do with the sale of land. Do you expect this to be recurring from now on? What should we expect in the next results?

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

Can you be a bit more specific, what sale of lands are you talking about. We have some projects like Boa Vista, Catarina.

Q - Roberto Browne {BIO 16864913 <GO>}

No. I just wanted to understand what we should expect, because the sale of land should be more frequent, right? So what kind of volume, do you expect to sell? Can you give us any guidance on how this is going to be from now on, not enough for any specific project, but for -- as regards the activities of the company as a whole?

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

The sale of land is something that I think part of our business. We do like this strategy because, it depends -- it brings less risk in terms of executing works and the cost of works. This, in Brazil, in the last few years has been a big bottleneck. So the Boa Vista project is the real estate development, is a land division. So the margin is a bit higher and we sell land. When we launched Catarina, we also decided to be part of it by selling land to other real estate developers.

And just to help you understand this from now on, when we give a guidance of 1 billion per year, we're not considering except for Boa Vista, we are not considering the sale of land. We are considering the total PSV of the business. And if this project or if a project is transformed into land, the PSV is lower, but you have a contribution to the bottomline. That is interesting. So in terms of guidance, let's say, if you imagine one billion in launches per year, real estate development should have like 200 million -- 250 million per year of contribution based on the historical benchmarks that we have. And we know that these has to do with the projects that we launch in terms of PSV.

Q - Roberto Browne {BIO 16864913 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Luiz Mauricio Garcia from Bradesco. You may proceed sir.

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

Good afternoon to all. I have two questions, the first one is, Auriemo, if you can make more comments about something that was said in the release for short term for Metro Tucuvi; Tucuvi subway station and the airport can you give us a little bit more color about these two projects? What type of delay is happening in the local administration with (inaudible) is what I mean there was something specific, if there anything specific, is there any consideration being discussed with the local administration or is this the bureaucracy that has to the extension phase I and II. So can you give us the status of the project approval?

And the second point has to do with contract or obligations under other expenses, we have 14 million there. I would think that 11 or something close to that has to do with the obligation to have a minimum revenue from to that adjusted in course. And also, what is your expectation in terms of reducing this guarantee? There is a reduction under contract, but I would like to know about these reduction in view of the rents and the leases in that project as a whole?

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

So as regards Tucuvi, that the important thing here is that the process to build the shopping mall in some city and more specifically in Sao Paulo, I mean, we have been requested to do, we the developers as a whole, we have been requested to do road works and things like that. But there is a lot of bureaucracy as regards inspections and this in the end end's up costing a little bit more from that point of view of the operation. So we don't have yet, to date, any comments to make about it. The most important thing is that we are working hard to make these processes happen and end as soon as possible, so that we can open them all.

As regards the airport, we are waiting for the licenses, which are very complex licenses, but we are on the right path. Of course, we have to respect all the processes and the procedures according to the rules of the authorities. And on our side, we are ready to be begin as soon as we are granted the authorization. And speaking of the business itself is a very promising market and the time that we spent studying the project makes us feel more comfortable to invest in the projects and the return for the company is very attractive,

although, it is -- be quite a big investment. As soon as we can give you more detail about it you will see that it's a project divided in phases.

You have an initial investment to build the airport and then different phases and we will be able to organize investment according to return that the project yield, and I believe that the segment of infrastructure in Brazil has to be looked at in an optimistic way. This airport serves a specific segment of the market, but when we look at the infrastructure as a whole, it is going to be a very important airport, in that if you have able to release

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executive aviations which today uses more central airport. This project has a strong synergy with the needs of customers, because there is a bottleneck in the infrastructure. As regards the real estate fund, the expenses that you highlighted has to do without obligations regarding this real estate fund with Valia and the fund that we have with Banco do Brasil. With Valia, the obligation is lower than with the Banco do Brasil fund. And so, the lease business is going well and we believe that we want to reach the threshold of our contractual obligations, because we are leasing the areas. And this will mitigate the impact that you see in the balance sheet.

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

And what can we expect, can we expect a reduction in view of the drop, one slab each month or do you believe that the obligations would drop lower than the slab. What do you think, do you think that you are going to lease the areas faster than -- at a faster pace than the pace of the obligations dropping?

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

In our model, we assume that this is going to last and still you are co-obligated. I think that we can give you a more precise view shortly. But from a macro point of view what happened in Q4 was the following; we are going to see the impacts, this decline throughout 2013, the impact won't be Q4 multiplied by four. We are going to have a gain that has, though we contract the reductions and with the leases which are happening. We can give you or those who are interested, our forecast for the year of these co-obligation, no problem about that.

Operator

Our next question comes from (inaudible). You may proceed sir.

Q - Unidentified Participant

Good afternoon. I was a bit anxious to know a little bit more details about the airport. I know it's too early and you cannot make this information available. But when are you going to disclose the information? Do you have any idea of when we will be able to understand the value drivers of this project?

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

Throughout the year, yes, we're growing to be able to give you more color about it. The important thing is to obtain the licenses to begin the works, once we have that we're going to disclose expectations for investment and revenue, just as we did with the recurring income business. The expectation for the first two years of revenue and investment and we believe that the building license should be released very shortly.

Q - Unidentified Participant

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Mr. Luiz Mauricio Garcia from Bradesco. You may proceed sir.

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

I just wanted to understand why there is such a high margin in the decision and what we could expect from now on?

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

In 2012 we had 30 million; 30,300,000 for a revenue of 42.9 and in Q4 the revenue was 13.7 million for an income of 5.5. Retail is seasonal and (inaudible) the expectation is that the margin for this business for reference in terms of future budget is 8% of the revenue.

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

And can you give us some gross margin for the segment?

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

Gross margin is a bit higher, there is a seasonality there, driven by activities of specific products which have greater margins. So our vision is that it won't be like the fourth quarter, but it should be between 50% and 55% of gross margin.

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

And if you allow me one more question, I wanted to know about the Catarina fund or Roma, Sao Paulo, if you have allocated more, in Q3 it was 76% and now JHSF has some 4% to 5% more of allocation and even in the Berlim fund, 50% was allocated. Can you give us a little bit more color how this is posted, what was the effect in the bottomline?

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

Our strategy for real estate funds as is the case of Catarina, is for the company to have a percentage of the investment, remainder percentage of the investment that is in that fund that we had 50%. The fund is still selling this quarter, there is high demand for this type of product. And according to what we see in new products, we will dose [ph] how much the company wants to hold from this product.

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

Okay. Thank you very much.

Operator

(Operator Instructions) The Q&A session is now closed. I would like to turn the floor over to Mr. Auriemo for his final remarks.

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

I would like to thank you all for all participating and Marc remains available in our IR area to take any doubts you might have, such as the expenses having to do with real estate funds. This is information we can share with you and any others you might have. Thank you very much and good afternoon.

Operator

The conference call of JHSF is now closed. We would like to thank you all for participating and have a nice afternoon.

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