



LOG COMMERCIAL PROPERTIES

4Q Results Conference Call

February 10, 2020

Operator:

Ladies and gentlemen, good morning. Thank you for waiting. Welcome to the conference call of LOG Commercial Properties for the earnings of 4Q20. We have with us Mr. Sergio Fischer, CEO of LOG, and Mr. André Vitória, CFO and Investor Relations Officer.

We inform that this event is being recorded and translated simultaneously, and all participants will be in listen mode only during the Company's presentation. Next, we will have the Q&A session, when further instructions will be supplied. If any participant needs any assistance during the conference call, please press *0 to reach the operator.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the Company, forecasts, as well as operating and financial targets represent the opinions and assumptions of the Company's Board, which may or may not occur. Investors should understand that political and economic conditions and other operating factors may affect the Company's future and lead to results that may differ materially from those expressed in such forward-looking statements.

To begin the 4Q20 conference call, I would like to pass the floor to Mr. Sergio Fischer, CEO of LOG.

Sergio Fischer:

Good morning, and thank you for participating in our conference call for 4Q for LOG. Before talking about the results, I would like to mention three points. First, the new accelerated growth curve. At the end of 2020, we revised the original All for 1 plan for the All for 1.4 plan, delivering 1.4 million m² of ABL by the end of 2024. We acquired another 500,000 m², and we will reach 1 million m² in our land bank for the next three years of production. We have been able to have good negotiations in buying plots of land without competition and in a very attractive way through exchange and barter.

Second, as we develop the new green field assets, we have seen an increase in the value generation captured as a result of the spread between development yields and cap rates already established in the market. We have given good results in all the years since our foundation. We have had a significant value in our GLA. In 2021, we will have a record activity in construction with more than 400,000 m² produced.

Third point: we will maintain active and more relevant our recycling of assets. We concluded 4Q20 with the second set of sales of assets to our real estate investment fund, LGCP11. Today, we have more than R\$1.5 billion in mature assets ready for sales. The gross margin has been close to 50%.

Now going into the demand for warehouses, we saw robust growth in 2020 in e-commerce. Some data showed that from 6% of e-commerce in total retail in 2019, now we are close to 10% of e-commerce in 2020. We have seen demand growing in all regions of the country. With our good geographic diversification, we are well positioned to take advantage of this additional demand. And today, 40% of our clients are directly or indirectly linked to e-commerce.

We have a record level of occupation with only 3% vacancy during the year. I would like to say that 2/3 of these rentals were made by our own commercial internal team, and our client base has been the greatest clients.

We have strong demand, accelerated growth and recurrent value generation in the development of our assets. This places us in a unique position.

Now, André will talk about the financial highlights.

André Vitória:

Thank you, Sergio. In line with this important cycle of value generation that LOG has had, I would like to share with you some of our financial highlights.

In 2020, we had a different year, but LOG's results were very expressive. The solid indicators we have today reflect the best commercial moment of the Company. The growth of revenue was around 10% when we compare year over year. This performance has been constant during the last few years and shows the resilience of our business model, even in difficult periods.

We have an EBITDA of R\$255 million during the year, 39% higher than in 2019. We reported a net profit of R\$143 million in 2020, comparatively 53% higher than the previous year. Our cash position is robust, approximately R\$750 million.

We have the lowest delinquency in the last five years, close to zero. This index is very relevant and reflects the quality of our client portfolio.

We had a quantum leap in 2020 in GLA. The satisfaction increased a lot during the last year due to the proximity we have had with each of our clients in all our operations. Our cost of debt is low, CDI + 1%. Net debt of only R\$56 million, representing 1.8% of the PL.

In other words, revenue and EBITDA growing, solid liquidity and low leverage. These indicators placed LOG in a very comfortable position to continue with our growth plan, the All for 1.4. In this sense, with the cash generation of our operation, or even through debt, what I would like to really highlight to you is what Sergio said, the recycling of assets that we consider the best option to support this growth.

LOG develops green field assets. So the recycling of assets to our real estate fund LGCP11, together with other vehicles, may be considered an eternal source of revenue, and this generates a lot of value for the Company.

We will continue with our ESG practices, with sustainable actions for the environment at the beginning of our projects, and also helping in communities around our projects, always with the best governance practices.

We would like to close our presentation, and now we would like to begin the Q&A session. Thank you very much to all.

Gustavo Cambaúva, BTG Pactual:

Good morning. I have two questions in reality. The first, in the past you mentioned that you could grow well also in built-to-suit. How do you see the demand for built-to-suit? And is there demand looking at the deliveries? Even the warehouses, you were delivering with low vacancy rates. So I would like to understand, is it interesting to look more at BTS?

And my second question, the purchase of plots of land for new projects. You announced that you bought more plots of land for your All for 1.4 project. Are you having any difficulty in finding plots of land? Do you have competition, new players to grow in the cities where you are present? Thank you.

Sergio Fisher:

Good morning, Cambaúva. Thank you for the questions. Built-to-suit. We have some operations in progress. We should announce some built-to-suit projects. We will continue focused in speculative, but also in BTS. The dynamic will be depending on the yield we can obtain. We are very focused on the yield. We have a target of 12% return a year.

BTS has had some additional competition. Sometimes we see some players being more aggressive in prices, and we are not going to enter any price war. If we have a BTS, it is because we will be able to obtain 12%.

In terms of speculation, there has been a strong demand. We have been mentioning that our client base has been responsible for our growth. We have been able to lease many projects during the construction.

And these new cities, in your second question about plots of land, many times, the plots of land we study are shared with clients that ask us for new operations. So some plots of land have preapproval. We do not see competition, very little, with the exception of São Paulo, with a lot of competition, but we are not going into São Paulo. The prices are too high.

But there is a lot of opportunities in other consumption centers like the ones we bought this year in Belém, we have a project in Fortaleza 2, we are going to Recife. A lot of a lot of good opportunities without competition in centers outside São Paulo.

Gustavo Cambaúva:

Thank you. Good morning.

Gabriela Morais, Itaú BBA:

Good morning. Thank you for the call. You had a forecast to increase GLA. We would like to have more details about this forecast. Should it be concentrated within the deliveries in some quarters or during the whole year?

Also, concerning inflation, the price of construction material, we would like to understand, are you concerned with inflation in construction material? Thank you.

Sergio Fisher:

Gabriela, thank you for the question. Concerning deliveries, we said we will have a record year in terms of production. We are not going to deliver 400,000 m². This is a prediction, at the end of 2022 we have more, but during the year, a little above 200,000 ABL, with a lot of concentration in the 2H, and also in some deliveries in 3Q and a little in 4Q.

Concerning the cost of construction material, we have felt the pressure. We thought prices would go down at the end of year. This did not happen. A lot of price increases in steel, more increases in the price of steel coming. We are very exposed to steel prices because we use steel structures. These are the highest costs in our project, steel structures. Also, the trend is to have higher construction costs. I believe that only in the 2H we will see prices going back to normal.

On the other hand, what have we seen, the price of rental has gone up in a uniform way in Brazil, the price of leases has gone up. So our forecast is to have a small upside, even with the pressure of the cost of construction, and we also see lease prices going up, rental prices going up.

Gabriela Morais:

Thank you.

Nicole Inui, Bank of America:

Good morning. Thank you for the call. I would like to know more about demand. I know that e-commerce is stronger, but are these really e-commerce companies or companies trying to increase their capacity in e-commerce? What kind of companies are really increasing the demand?

Also lease prices, rental prices. Do you see more space to increase construction in São Paulo? So the price of rental leases.

Sergio Fisher:

Concerning demand, we have seen in general e-commerce demanding more and more space, a lot of these large e-commerce players closing very good deals with us. So all the large e-commerce operations we have made are outside the Southeast of the country, outside São Paulo and Rio, and all for large names.

So all the clients, those who are negotiating are negotiating their entry into new geographic regions, and we have record number of negotiations in progress. Almost half of the ABL or GLA is in negotiation, and we should close this in 1Q. More than 80% of this GLA and divided between large players with large operations and also retailers, or logistics operators, which have had an impact due to e-commerce.

On the price of the leases, the price of rental, every city has its own way. In Belo Horizonte, in the state of Minas Gerais, prices have gone up well. São Paulo had a price increase in the past, but there is still a trend, and we have seen a positive trend in all of the country. We do not really have one geographic location above the others.

André Mazini, Citibank:

Good morning. Thank you for the call. Congratulations for the results. On page three, there is a good graph, you separate EBITDA from net profit and rental activities. How do you calculate the gains in development? Are these projects that have been already sold to your fund?

Also, a follow up on e-commerce. The market in Brazil, we have a lot of players in LATAM in warehouses, Mercado Livre for example. Amazon has been in Brazil for five years, and also some players from China. This Do you believe the Chinese players will accelerate their growth in Brazil? Can you give us some details about the new players coming into e-commerce in Brazil?

Sergio Fisher:

Mazini, thank you for the questions. Let me begin with this one about e-commerce. I have said a lot, Brazil went from 5%, 6% e-commerce to almost 10% in 2020. So there is a lot of space for growth. Brazil should have more than twice this share of retail and e-commerce. So in Brazil, we see e-commerce stronger and stronger.

E-commerce should not grow the way it grew last year, but it is still growing. There is a growth trend, especially outside the Southeast of Brazil, São Paulo and Rio. All the players are organizing themselves for this. All these players you mentioned.

The Chinese, they are still a little shy. I have not seen a great demand on the part of the Chinese. I know that there has been one player, but we have not felt this. But I believe there is a market for everyone, and this will happen. We will see more activity from the Chinese.

In terms of *fair value*, our business, as we develop, we have stressed this, the green field assets we are generating with working at around 12%, 12,5%. So the gross margin of 50% is the one we have seen.

How do we capture this value in the product cycle? As we develop these projects, we have this value. The value is captured during the development cycle. This year, we will have a record production, as I mentioned. You will see more and more green field operations in our yearend report. It generates revenue, and we also have a lot of green fields. So this year you will see the same thing.

How do we capture comparing with recycling, selling to the real estate fund? When we sell these properties, you will not see the revenue in our GLA, you will see in cash, but we stabilized the assets. We may have additional revenue when we have synergy, when we sell. So that is the dynamics.

I would like to highlight this, because this will become more and more relevant in our yearend reports with our plan All for 1.4. Our plan has generated more than R\$1,000 for GLA. If you multiply that by the number of meters we have, you will see what we will capture in the next few years.

André Mazini:

So you sold 2,500 m² of strip malls. You sold this at market prices. When do you believe you will sell the rest of the strip malls?

Sergio Fisher:

We have a little under 15,000 m². In the last two, three years, we sold strip malls in a recurring way. We want to be focused on warehouses, 100%. We have negotiations in progress for strip malls, but we do not want to leave money on the table. We want to sell at a good price, with the same process of green field. We want to capture the value in the sale, and we are studying this, but we will do this without any hurry. It is not very relevant for our business.

André Mazini:

Thank you.

Lucas Hoon, XP Investimentos:

Good morning. Thank you for the call. We are seeing the real estate funds very capitalized. In warehouses. We would like to know about the divestment strategy. Do you see an acceleration by selling to your fund, or sale to other players? Especially in the region in São Paulo.

Sergio Fisher:

We do not have a rule. How do we see this? We had two sets of sales this year. We should sell more than in the past, but nothing stops us from selling to other funds in the market.

We have focused on LGCP because we have been selling to the minority owners and maintaining contact with them. This is very important. These clients have made this grow, so we do not want to lose this contact.

In the cases where we have only one, we may recycle. We may sell. There is a scarcity of quality projects, so we may sell more.

Lucas Hoon:

Okay. Thank you.

Operator:

We would like to close the Q&A session. I would like to pass the floor to Mr. Sergio for his final comments.

André Vitória:

Before passing the floor to Sergio, I would like to supplement an important piece of information about delinquency. We showed we have the lowest delinquency of the last five years, close to zero, and this is linked to the quality of our portfolio, the quality of our clients.

We had a quantum leap in 2020 in GLA, and this is due to the way we have been maintaining this close relationship with the clients, and obviously this has helped us in the growth plan and the deliveries in the last few years.

In this sense, the way we have been managing these contacts and this good relationship with clients has been fundamental for us to have these robust financial results.

Now, I would like to pass the floor to Sergio for his final comments.

Sergio Fisher:

I would like to thank you all for participating. I would like to reinforce three points that I mentioned, which are very important. Our new growth plan with 40% upside in relation to the previous is a very strong result. We began the year with strong demand in the market, and now we are prepared, with many construction projects beginning, and we will have a very positive performance, better than last year in the next few quarters.

And also, second point, the value generation. This will be very relevant for us. We develop green field assets. We will capture immense value with our growth plan, and this will be seen in a robust way in 2020. You will see in the releases this year, you will see this in the yearend report in a positive way.

And third, the recycling strategy. As I said, we will continue with this strategy. It is very important. Independently of a good source of funding, we have a very good position. We will increase the value of the recycling activities. This is another relevant point that I would like to highlight.

Thank you very much for participating, and we wish you all a good day.

Operator:



The conference call of LOG Commercial Properties is concluded. We thank you for participating. We wish you a good day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"