



LOG COMMERCIAL PROPERTIES

2Q Results Conference Call

July 30th, 2020

Operator:

Ladies and gentlemen, welcome. Good morning. Thank you for waiting, and welcome to the conference call of LOG Commercial Properties.

We inform that this event is being recorded and translated simultaneously. The participants will be in the listen-only mode during the Company's presentation. Next, we will begin the Q&A session, when further instructions will be supplied. If any participant needs assistance during the conference, please request the help of an operator dialing *0.

Before proceeding, we would like to clarify that any statements made during 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 factors, economic condition and other factors may affect the Company's future and lead to results that differ materially from those expressed in such forward looking statements.

Now, I would like to pass the floor to Mr. Sergio Fischer, LOG's CEO, Mr. André Vitória, CFO and Investor Relations Officer, and Mrs. Luciana Zanini, Director of Financial Planning and Investor Relations.

Mr. Sergio, you may proceed.

Sergio Fischer:

Good morning. Thank you once again for participating in our conference call for LOG' earnings.

2Q was very good. We trust in the future of the Company, and we continued prepared and well positioned to take advantage of the opportunities with the expansion of e-commerce. And also, we closed the Company with the best quarter.

Before talking about the results, I would like to talk about our commitment to help our clients and team to go through these difficult times. I would like to also recognize the efforts of our employees.

We closed the first quarter since the beginning of the pandemic. We took many measures to minimize the risks for the thousands of people who circulate daily in our projects. We hired health technicians, we tripled the cleaning efforts, and we implemented shifts in the restaurants and educational campaigns for our clients and outsourced parties.

Also, we suspended meetings outside of the Company and trips, and we implemented strict isolation measures. We will continue alert and in a disciplined way, also heeding all the recommendations of the authorities.

In terms of business, our undertakings continue open. We are part of the supply chain of essential sectors of the economy, such as food distribution, pharmaceutical products and cleaning products.

We have an executive committee to take care of tenants requests on a case by case. We accepted some requests to defer payments from tenants and some discounts. This diminished as the months went by.

Until now, we have had very little delinquency, and this shows the great portfolio we have and our exposure, which is pulverized in many sectors. We have the lowest net delinquency in the last 12 months since 3Q19, which shows that our strategy is correct.

We continue working. We built many partnerships, and this has helped us in our conversation and results. We have promising expectations for the future. We see the Brazilian market as lacking class A projects, and many going from obsolete projects to class A, flight to quality.

Also, the isolation increased e-commerce simultaneously in all the regions of Brazil, increasing the search for logistics space in many cities where we have class A assets. There are estimates of for the acceleration of the EBITDA natural evolution of e-commerce in three or four years because of the pandemic. In Brazil, we have half of the volume in the U.S. and 3x less than in China for e-commerce.

We believe that the change in habits is profound and significant, and part of this transition will remain as a legacy after the pandemic. Publications suggest that $\frac{1}{4}$ of the Brazilian population bought via the Internet for the first time, and this shows that it doubled since 2019. And this especially in beverages and food.

Large operators have positioned themselves to take care of their clients with more quality, and they have tried to reduce the last mile, all of them with our business model. We calculated more than $\frac{1}{3}$ of the Brazilians is less than 150 kilometers from our projects. We are in 11 states and many of them with good quality. We believe that the demand towards flight to quality will boost our business in the next few years.

We launched at the end of 2019 the plan All for One, to add 1 million m² to our portfolio. For this, we proposed to buy 700,000 m² of plots of land. Of these, 312,000 m² of land were already bought until the closing of 2Q20, and this through our intelligence.

We defined our expansion based on our client base, which minimizes risks. Our growth thus has a virtuous cycle. We had a very strong semester, with record rentals at LOG. We signed 231,000 m² in total, and thus we continued on strong, and we have rented 99.5% of our space.

We delivered 28,600 m², 98% already rented. We began two new projects, one a new contract, with a potential of 44,000 m², and this in Betim and Belo Horizonte, in the state of Minas Gerais. This is the first project of sheds, and it is a quality project.

Before introducing our new CFO, André, I would like to say that we trust in our quality projects, modular shifts, and also with an excellent portfolio of clients.

André Vitória:

Thank you, Sergio. It is a great pleasure to be part of the team for LOG. We will continue producing many good things.

As we showed during the last quarters, our performance indicators continue solid. We have 13% growth in operational revenue, net revenue, and we had 13.7% in adjusted EBITDA in relation to the same quarter last year. And also, we had an increase of almost 42% of FFO adjusted year after year, with R\$23 million.

The combination between cost of funding at historical lows and the return yield of 12% has given us record spreads. Our management model is very competitive. We saw this in our relationship policy with clients and the result of actions during the pandemic.

For example, the net delinquency in the last 12 months closed the quarter at 0.57%, the lowest since September 2019, and the rent collection in July is at 100%, including the deferred rentals that matured this month.

All these impacts had a limited impact on cash, without any negative effects expected in the next quarter. More than 80% of these deferred payments have to do with April, May and June, and we only see a reduction of 18% in receivables. They will be amortized in the 2H.

We have we have a potential for accelerated growth, we have a forecast of accelerated growth. We have a net debt of only R\$135.7 million. We are always alert to the market for you opportunities to lengthen the profile of our debt.

We continue looking at interest rates in order to have more free cash for investments. We also value our opportunities to recycle capital by investments funds through FII LGCP11, which work very well in the first issuance. The fund has an approved capital of R\$1 billion.

We continue to offer the same experience of a diversified portfolio, maintaining the control over the assets. The rhythm will be determined by market opportunities and the demand for capital in our expansion plan.

Now, I would like to pass the floor to Luciana, and she will comment on our participation in the stock market.

Luciana Zanini:

Good morning. In relation to the stock market, we had a positive recovery after a period of volatility, which began in March, especially in terms of liquidity. Here, we reach R\$14.6 million in ADTV 30.

Another point is that our share dispersion in the free float is interesting. We have 53% and 47% Brazilians. Of Brazilians, 39% represent more than 23,800 individuals, or 18.4% of our free float is represented by individuals.

Thus we close our presentation, and now we will go on to the Q&A session. Thank you very much to all.

Enrico Trotta, Itaú BBA:

Good morning. Thank you for the call. Two quick questions. The first, the deferred rentals, these payments of rentals, where they deferred to the 2H? Do you see any trend to have an increase in delinquency of these rentals? You said that until now everyone has paid. Is there a risk of delinquency in the 2H? Also, what type of lessees or tenants do you have? Are they in a specific segment?

The second question, we see an acceleration in retailers looking for logistics projects. Is this concentrated in the Southeast of Brazil, or do you see demand in other regions of Brazil where you have sheds? Please, explain this. Thank you.

Sergio Fischer:

First, deferred payments. We received more than 70%. We had some cases of discounts. For example, apparel, there was a concentration in apparel. We had to negotiate with them. Other sectors did very well. Food and beverage was good.

We do not see any increase in delinquency in the future. We have a good clients base. The deferred payments were already made, they were already, collected. So we do not see delinquency of the future.

Concerning e-commerce, the greatest demand we had was outside the Southeast of Brazil. We are close to consumption centers; e-commerce has grown a lot. Some statistics say that e-commerce doubled during the pandemic. And we have seen demand on a national scale very strong in the Northeast of Brazil too, and South and Southeast with a lot of demand.

So we have seen an increase, not only in the Southeast, but on a national scale. All over the country, we have seen an increase in demand.

Enrico Trotta:

Thank you, Sergio.

André Mazini, Citibank:

Good morning. First question, on rentals and vacancy, total vacancy dropped, and We see here a stabilization. You rented 120,000 m², you delivered 61,000 m². I imagine that you had some churn. If you delivered 61,000, some tenants left. Who left. Who is leaving? Who is joining is probably e-commerce, right? That is my first question.

And the second question on contracts, you said the average contract is 93 months, almost eight years. If you could tell us the built to suit and modular sheds, for example, do you review these contracts, or is it the same contract during the whole term?

Sergio Fischer:

Thank you for the question. You are right. We had a lot of churn, But not because of the pandemic. This is a normal churn, people changing. 10%. We see this as a positive effect. We have new entrants.

The good news is that we are told 120 days before, and we are being able to rent the spaces before the previous tenant leaves.

Concerning new entrants, what we close this semester, 70% to three sectors: e-commerce, pharmaceutical and transportation companies. And in the other sectors, the same.

Concerning contracts, all contracts have the right to be reviewed. They can be reviewed. For example, we have a lot of proximity with our clients, we have a good relationship. We always understand their needs, and we reviewed terms during the contract. Churn is typical.

Concerning the modular sheds, on average, the contracts are for four or five year.

André Mazini:

Thank you, Sergio. And the contract reviews are every three years?

Sergio Fischer:

Every three years. But we never had a review in our history. We never had. Some clients require expansion. These are the case. The relationship is very good. We talk to clients on a daily basis. In 70%, we had these cases of deferred rental payments during the pandemic. But legally, they have the right to review the contract every three years.

André Mazini:

Thank you.

Pedro Hajnal, Bradesco BBI:

Good morning. Congratulations for the results. First of all, in relation to your portfolio, in this semester we saw an increase in occupation from e-commerce companies. 11% right now. What are your expectations in terms of growth? How much do you believe e-commerce can represent in the next few years?

And the second question, concerning new projects, you see an increase in demand for shed. Can you accelerate construction? Also, those which are being built, do you have any projects to be delivered this year? Are they rented already?

Sergio Fischer:

Let me begin with the second question. Our schedule was not affected. We delivered 20,000 m², 98% rented. We have two new construction projects, which should be delivered in 4Q, and they are already rented.

We have a project that was to be delivered next year, we are trying to deliver it this year. Another one is in the share price, which will be delivered in 4Q, and 70% are already rented.

Concerning acceleration of the construction projects, normally we have projects and construction in these areas where we see demand going up. The projects that we were beginning in 3Q, we are accelerating, yes. This is due to the demand in all sectors, including e-commerce.

On your question about the percentage of e-commerce, 11% is for clients that do only commerce, but almost 40% include operators that have e-commerce operations. They are not 100% dedicated, but they have e-commerce transactions.

And the trend, we believe that now we are going to 25% in e-commerce. We believe we might reach 40% of rentals for e-commerce.

Pedro Hajnal:

Thank you.

Thiago Lucchesi (via webcast):

Good morning. I would like to know what could be the impact of the new tax on LOG's earnings?

André Vitória:

Thank you for the question. After they deliberate this law project to Congress, we understand that since we are part as middle persons in the chain, we should be affected, but not with a material effect. Also, according to our studies, service companies and some of our suppliers may be affected with the new tax.

We will continue monitoring the reforms in Congress, they are not approved yet, to have a more concrete idea of this impact. So we will wait for the time being.

Operator:

Since there are no more questions, we would like to conclude the Q&A session. I would like to pass the floor to Mr. Sergio, Mr. André and Mrs. Luciana for their final comments.

Sergio Fischer:

Thank you very much for participating. These are our final comments. First, the growth. We are very happy with the growth. We began two new projects. In 2021, we will have a lot of deliveries in our portfolio of new projects, together with this record spread that we have had. Cost of funding is very low. We have a record spread.

With this, I would like to talk about the investment fund. We did the IPO in December. We are studying to really have this growth. We are analyzing it, and soon we should announce new movements.

Thank you very much. Have a good day.

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