



LOG COMMERCIAL PROPERTIES

2Q21 Results Conference Call

July 29, 2021

Operator:

Ladies and gentlemen, a very good day. Thank you for waiting. Welcome to the teleconference of LOG Commercial Properties referring to the results of the 2Q21. We have with us Mr. Sergio Fischer, CEO of LOG, and Mr. Andre Vitória, CFO and Director of Relations with Investors.

We inform you that this event is being recorded and translated simultaneously. Participants will be listeners only, and soon after we will start the Q&A session when further instructions will be provided. Just in case you need assistance during the conference, please request the help of an operator by pressing *0.

We would like to clarify further that declarations and statements during this teleconference related to perspectives of businesses, financial goals and operational goals are projections of the Company that may or may not happen. We should understand that political and macroeconomic factors and other factors may affect the future of the Company and lead on to results that differ materially from those that are expressed here.

In order to open the floor, I would like to pass the floor to Mr. Sergio Fisher, president of LOG.

Sergio Fischer:

Good morning, all, and thank you all for being here. I will start with good news. The new BTS that has been closed in Betim for activities with construction works for the 1Q21. It was not foreseen in our initial plan, so we are upscaling our foreseeable delivery up to 1.5 million in the 1Q24. We are going through the best moment. Our absorption was 3x greater than the expected for 2020. We have 14,500 m², ABL of 93%, and out of the whole load, out of the axis Rio-São Paulo, and 89% of the contracts actually with vacancy of 2%.

Online, we have doubled throughout our period and wholesale is a trend for the next years responsible for 84% of the gross absorptions of the next year. We have activities that are mainly due to e-commerce, and we are going to deliver new assets.

We are more than company and properties, we are delivering value. in the 2Q21, we have a major impact with the new assets that have been generated, and we have had major gains in this part.

We have BTS Extrema, R\$272 million, 370,000 m², more than twice the investment. It was done through an independent contractor that is responsible for most of our assets. The competition of this recycling, 55,000 m²., R\$55 million in results, 44% above the average.

In the 2H, 227,000 ABL and 1.15 million above the average. A major part was actually above the average. We have assets in-house, we have our strategy of geographic diversification, 37 cities, 17 states throughout the country. Then construction works from North to South.



We are committed to the delivery of delivery of our growth plan. We are building in 2021 400,000 m² of ABL, and we are to deliver that. More than 50% are pre-leased, and that demonstrates the power of our business. We are the greatest and the best portfolio in the sector, and these characteristics combined bring us a unique competitive edge.

I would like to pass the floor on to André.

André Vitória:

Thank you, Sergio. We have consistent results. We have in the 2Q R\$78.4 million, 3.5x greater than the last period. EBITDA was R\$76.5 billion, almost 3x the same period 2020.

The revenue keeps on growing. Our cash flow is R\$89 million. We have R\$3.2 billion in assets as properties for investment. We are showing over and over that this recycling of assets means more than an alternative of funding for our investment, it is part of our strategy. We are going to recycle mature assets that are within the proportions, maintaining our cash.

The plan, 1.5, we made public our ranking along the agency, and we are pointing out our quality of credit. Our cost of debt is low, CDI + 1.5%. The liquid debt is +1.3.

This quarter, we have the sustainability report that has the best results and impacts on all levels, including sustainability. We have joined the global pact of the UN with the largest entrepreneurial initiative of the world.

We would like to go to the Q&A now. Thank you all.

Alex Ferraz, Itaú BBA:

Good morning. Thank you for the presentation. I have two questions in one. First, on built to suit, we had this announcement, 95,000 m² in the industrial park. We see that there has been a comment that possibly there would be a fourth agreement. In general terms, whenever we have an announcement of built to suit, should these contracts be the same size as the previous ones, or do we have smaller ones within the pipelines, or any announcements should be relevant?

Built to suit, this is my second question, should we expect a review of the plan once a year? Could we wait more sequential reviews, if you would say so?

Sergio Fischer:

Good morning. Thank you for your question. This is. In the 1H, we had two BTS in the plan that were actually above the plan, 1Q, and in the 2Q, the industrial park of Betim. We have a third one in July, and we have a fourth undergoing negotiations in August.

These two new ones, July and August, they are not going to justify an alteration of the plan, because the BTSs are going to go according to exchange, the speculation for BTS. They are major projects, and some of those in this quarter are going to go above 100,000 of BTL. Construction work has already started, to be delivered by the end of next year.

Alex Ferraz:



Thank you. That is quite clear.

André Mazini, Citibank:

Thank you for the call. First of all, recycling-wise, you sold Extrema for a third party, Blue Macaw, if I am not mistaken, a real estate fund. We thought that, with interest rates going up, the real estate market would change dramatically with more capturing. It seems that it is off the negotiation table. When it comes to real estate capturing, and when it comes to third parties, will there be further recycling if interest rates go to 7, 8, in that order? Or will we step back? And vacancy-wise, we can see that it is a very low level. Please, let us know about your initiatives in terms of numbers for LOG to be the chosen party.

And mentioning that, I would also like to point out competition services. And I remember you mentioned providing forklifts if a leasing party needs, and the e-commerce as well. And I think that point would go even above and beyond my statements. And still within that line, that that sector is not major in Brazil. I think the economy is different in Brazil. When do you believe that will take off in Brazil, considering all the risks that we have? And what would be the boosters?

Sergio Fischer:

Thank you for the question. Solar energy, it does not make sense yet. Our projects require energy in medium level tension. Our projects actually have that in mind for the future. What we have done recently in the last few years is change our projects, an exchange with the free market, a reduction in the order of 25% in the reduction of bills of consumers.

When we think of solar energy, we are discussing, trying to understand and trying to see how that will unfold in the future. And we will see certainly results in the near future services-wise, and our differential, our competitive edge.

We are becoming a one-stop shop for many clients. We see leases that used to be robust, that we are actually decreasing. We are going for clients that know our assets, our specs in terms of quality.

So that is a major differential, and that has been playing a major part in our leasing. We sell the demand of the clients, we know where they have to be, where they are installed, and they are much more assisted in that sense. And the assets that we have had here in LOG Adm, which manages the projects, in the end, we do not have any concrete projects at this point. We are still undergoing the studies regarding IoT and innovation, things that will certainly disclose in the future.

I think I dealt with your question. Is there anything that I left out?

André Mazini:

Real estate that is sold to third parties, so Macaw. How is that scenario in terms of capturing third parties and others?

Sergio Fischer:



What we have seen is that our call center is searched from third-parties. We see that there is an appetite from those third-parties. That was not the plan initially. We did not think that would drop. We did not expect that to drop.

We will make some adaptations for those investors. In our funds, we have a very solid invitation to have more and more ABL in there with transactions that are paced in a timely fashion. And we are planning to do something in the near future in a robust way.

As I mentioned, in the last 18 months, we recycled more than R\$500 million in assets. That is an important strategy for funding, not only for the growth of the Company, but for the CDI of capital. We have steady stats that are very important, the R\$500 million with a spread in the order of 44%, which is highly relevant and we will keep on acting on that.

Now, regarding your point, the increasing of interest rates, we have some advantages in our business. The pipeline we are delivering, we are in the order of 12% yield on cost. We see a compression of spreads that may happen, that will report a gross margin that is around 35%, or even above if we are to close the dealing tables in that order.

André Mazini:

Thank you. That was all.

Bruno Mendonça, Bradesco BBI:

Good morning. Thank you for the space to ask a question. Uncertainties in the real estate market, we have the tax reform. On that point, I believe you must have discussed that. A lot of people believe that would be a worsen scenario, but it did not go either way. Did you change your mind set in terms of leveraging the Company, speeding up some projects or changing some plans, running a leverage on a more temporary fashion? In that scenario, how would you be your mind set?

A second question would be leases. We see the costs increasing in construction work, and so you mentioned that you are still delivering in the order of 12%, but the increasing curve in order to compensate the inflation, how do you deal with balancing out increasing costs and inflation?

Sergio Fischer:

I will start with leases, and then I will pass on to André for the top on topic on leveraging. New leases now, it is keeping up with IGP-M, in the last 12 months, it is in the order of 34%. IGP-M is according to IPCA.

We have not been able to pass on the totality of IPCA. Clients are renegotiating, asking for discussions that will give longer deadlines. We have clients that allow us to deal with, especially clients that are paying less.

In the 2Q, the same leased areas, comparing 1Q and 2Q, we have a growth in the order of 25% or more that has been improving the player as a whole, even for new businesses. We have seen that nationwide, prices gaining momentum and increasing, margins are doing well at our level, and we have the impact and the civil construction sector that is unavoidable and undeniable, and we have been a settling in that sector.



We are very optimistic in maintaining the yields. We have been maintaining that in the order of 12%, and we have been dealing accordingly with the levels of leases' prices.

André, the floor is yours.

André Vitória:

Bruno, structure-wise, as we have in the Company currently for funding, independently on the tax reform, on the account of the market, which is very volatile, the perspectives concerning the windows that we have, that we can explore, we have had equity this year. We have to assess that structure and monitor that constantly within our assessment.

Debt-wise, we have very low leverage. We can keep on pushing that slightly further to balance out with capital. On the other hand, the tax reform, that was a pillar that had a greater attention given to with higher volume, and we are still assessing the alternatives in terms of recycling.

It depends on the moment. It depends on the windows of opportunity that we find in terms of the market, but we have to have those three alternatives, and depending on the moment, we can use either one or the other alternative.

Bruno Mendonça:

Ceiling numbers, or maximum numbers, could we think in that sense?

André Vitória:

We have a balance that is very solid. We do not have a ceiling, no, we have an opening, and an open mind so advanced with that. But we do not have a metric at this point or a ceiling that I would be able to disclose at this point.

Bruno Mendonça:

Thank you for the answer.

Gustavo Cambaúva, BTG Pactual:

Good morning. How do you see the competitive scenario in your market? Vacancy is very low. And I would like to understand these greater players that have been very focused on São Paulo and Rio de Janeiro, whether you have seen a greater movement towards the Northeast or Center-East, whether there are different levels of competition, do you see that more locally or more nationwide?

Sergio Fischer:

The dynamics are still the same. Mr. Cambauva. The very few players organized in these sector are focused on developing in São Paulo because that is where we have more traffic. Random ones are in Belo Horizonte, Salvador, but not nationwide as we are.

We do not see competition, to be very honest. We have been able to replace very healthily, without major disagreements, and I do not think that will change. This is a scenario we work



with, and I think we will be drinking for a very clean water spring, to be very honest, and these markets are in high demands.

Gustavo Cambauva:

Thank you, and have a great day.

Aline Caldeira, Bank of America:

Good morning. Congratulations on the results. You mentioned that most of the absorption was the strongest in this quarter. Demand-wise, how do you see the demand in different areas, BTS-wise and speculation-wise as well? Thank you.

Sergio Fischer:

Aline, thank you for your question. The demand is strong nation-wide. We have been able to show that clearly with our assets, not only BTS. We have players that do a major operation sometimes and they tend to take that on to BTS, and there is a competition that is higher on that level.

We have been able to deliver quality assets, doing that with many players in this sector, and we have been able to gain some major operations.

Demand-wise, in a continental country as Brazil, we have consumption centers that are far from the Northeast and similar areas. So that area is still not a major market. As we have seen in relevant cities with 3 million, 4 million inhabitants, we see this major platforms. We have closed deals, great deals in these platforms, and regionalizing with an effective delivery of high level of quality at the end.

We have seen that demand, we have felt that. Clients are planning with us our growth path. We have some new cities that in the past were not in our radar. Of course, we studied the scenario to see whether we have enough information to make a decision, but that has been something that has been steady, and we are optimistic.

If you see the delivery, in the short-term, we are going to deliver half the plan by halfway through next year, 400,000 m² of the original plan. And most of that is preleased, and as they are delivers, that number will near 100%.

We are very optimistic. E-commerce is transforming. It will change e-commerce as a scenario in Brazil. We see an appetite with these players, the amount of ABL that we have seen overseas, and that is a trend for the upcoming years.

Aline Caldeira:

Thank you for your answer.

Renan Ulrich (via webcast):

Is there any perspective in terms of OPEX for next quarters?

André Vitória:



Renan, thank you. We are at the very decent level compared to previous years. We see stability in terms of maintenance, in terms of OPEX. We do not see a marginal growth in terms of expenses compared to the 1Q21. We have that trend to keep at a very stable level.

There is a natural growth, marginal growth, and we adapt our structures to keep on growing, and growing on our daily processes as we have been doing, and will keep going.

Paulo (via webcast):

Good morning. Could you comment on the demand from players that are not from e-commerce?

Sergio Fischer:

In the sector, we have two major drivers: e-commerce, that is at a very impressive level; and flight to quality. Brazil has an industrial park that is in the order of 160,000 m² of warehouses, and only 15% out of those are of quality.

And we have to work on that. That is a demand that has always been there. When we change projects and we think of new fronts, we think of changing operations for more modern operations and more active operations.

This has had decades of investments. We have grown by 1 million of ABL per year, and that is a demand that is ongoing for the foreseeable future.

Lucas Hoon, XP Investimentos:

Good morning. Congratulations on the results. I would like to ask a brief question. Given your robust growth plan and the impact of the pandemic, do you see that the approvals of the pipeline have some risks? And I would like to see how you were planning on working on that look.

Sergio Fischer:

Lucas, Thank you for your question. The pandemic impacts very specifically certain areas, certain municipalities. What we have been doing is to anticipate approvals. Town halls are understanding that the impact is highly positive for municipalities, and we have been having approvals in the order of six months or less, generating employment.

There are BTS points that we are studying. In some points, we have 5,000 new job opportunities, which is highly relevant. That is added to the tax generation to the municipalities, major, and our business organizes the space of the city. We are taking things that are unorganized throughout the municipality and organizing in certain areas.

Therefore, we have a strong argument to have approvals. The pandemic certainly held back some approvals, but it was not impacting after all.



Lucas Hoon:

Thank you,

Rodrigo, Santipar (via webcast):

Is there any perspective of payment of dividends?

André Vitória:

Dividend-wise, the paying of those, the Company assess that constantly, that is part of the structures that we assess. We are going to maintain 25%, which is the minimum required by the legal framework.

Operator:

At this point, we would like to adjourn the Q&A session. I would like to pass on the floor to Mr. Sergio and André for final consideration.

Sergio Fischer:

Thank you for the participation of all, I would like to emphasize the perspectives of growth that we have. As I mentioned earlier, there is a rhythm that is rather consistent. We have deliveries in the 3Q and 4Q, with record deliveries way prior to the foreseeable deadlines.

We have the idea of doubling the portfolio of the Company as previously foreseen. So we are going to hit historic records. We have new businesses in place. We will revisit this point in the future.

Thank you all for your participation, and a great day to all.

Operator:

Thank you. The conference call of commercial purposes is adjourned at this point. We thank you all for being with us, and have a great day.

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