



LOG COMMERCIAL PROPERTIES

1Q21 Results Conference Call

April 29, 2021

Operator:

Ladies and gentlemen, good morning. Thank you for waiting, and welcome to the LOG Commercial Properties Conference call on the 1Q21 results. Hosting the event today are Mr. Sergio Fischer, LOG CEO, and Mr. Andre Vitória, CFO and Investor Relations Officer.

We inform you that this event is being recorded and translated simultaneously. All participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question and answer session when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

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

To start the 1Q21 teleconference, I turn over to Mr. Sergio Fischer, LOG's CEO.

Sergio Fischer:

Good morning, everyone, and thank you for participating in the conference call of LOG's results of the 1Q.

We had a record of absorption. We leased 212,000 m² of total GLA, which represents almost 50% of the entire year of 2020, and twice the previous monthly record that had been set in the 2H of the year.

Reflecting the heated demand from e-commerce, 2/3 of this absorption was related to customers in this segment, and 90% outside Rio and São Paulo. LOG's internal team was responsible for 90% of the GLA leased.

We reached record levels in occupancy with only 2.5% of stabilized vacancy rate. It is important to emphasize that we have an extremely high volume of leasing in our ongoing projects, and our existing customer base continues to be the largest base taker, making us increasingly a one-stop shop solution for clients seeking expansion.

E-commerce reached an historical sales mark in 2020, and we believe that this robust growth will continue strong in the coming years. 47% of the portfolio is composed of clients directly

or indirectly exposed to the growth of e-commerce, and this representation will increase in the coming quarters with the delivery of our products.

In this quarter, we closed a new BTS project for a relevant player in the e-commerce market in the region of Extrema, Minas Gerais, with the potential of 78,000 m² of total GLA to be built in stages, and the construction is expected to start in the 2Q.

We added three new plots of land with 110,000 m² of potential GLA to the 1Q land bank, reaching 1 million m² of total GLA. We continue to have good negotiations for land with no direct competition, important consumption centers, most of it negotiated via barter, and 70% of the land for the completion of Todos Por 1.4 is already in place.

We are following our geographic diversification strategy. We currently have nine construction sites in all five regions of the country. We are forecasting a record year for construction activities with more than 400 m² of GLA produced, and remain committed to the delivery of the Todos Por 1.4 plan. We have several funding activities at our disposal, and a robust cash flow generation.

We will follow this asset recycling strategy as the main funding alternative, and from this year we will increase the recycling volume. In the implementation of the Todos Por 1.4 program, we are already seeing results.

Now, I turn over to André.

André Vitória:

Thank you, Sergio. Our results were very impressive and our indicators remain solid. I would like to start by addressing the most important aspect of our business, LOG is a greenfield asset developer. There were R\$115 million of positive impact on the operating results due to the value generated in new assets.

This recurring value generation throughout the Todos Por 1.4 growth plan will bring a significant return to shareholders. By 2024, it will be more than R\$1.5 billion recorded in our financial statements through business activities and equity, and consequently, dividends.

It is expected that, as we develop new assets, we will recycle mature assets in similar proportions, maintaining value and cash generation strategy throughout the growth cycle,

Always with the expectation of margins higher than 40% by the spread that exists between the yield on cost and the development of access and exit cap rates, I reinforce what Sergio has already mentioned: we will recycle more assets and faster. In our portfolio, we have about R\$1.5 billion in assets, with high consolidated performance, ready to be sold, either to institutional investors or to the LGCP11 fund.

In this quarter, we reached an EBITDA of R\$144 million and a net income of R\$122 million, 7x higher than the same period last year. Those are extraordinarily strong numbers. The positive results have been recurrent over the last years, which shows the resilience of our business model.

Besides being very well prepared operationally to continue our growth cycle, we present a very solid financial position in our balance sheet. Our cash, for example, ended the first three months of the year at R\$941 million, and our default rate remains at historic lows, close to zero, reflecting the excellent quality of our customer portfolio.

We have different funding alternatives at our disposal, whether through the asset recycling strategy or equity, which will always be balanced against our capital needs. In this sense, in the 1Q21 we raised R\$250 million in debt through an operation that did not require collateral. Our cost of debt is low, CDI + 1.4%. The net debt is only R\$90 million, which represents only 2.8% of PL, that is growing revenue and EBITDA with solid liquidity and low leverage, and different funding alternatives. These indicators put us in a comfortable position to carry out our relevant growth plan, Todos Por 1.4.

We and our presentation here, and now we move to the question and answer session. Thank you.

Alex Ferraz, Itaú BBA:

Good morning. Thank you for your presentation. I have two questions, the first related to the BTS announcement that you mentioned that you signed, a project for a 78,000 m² warehouse. I would like you to give us more information about that. What is the yield on cost you mentioned? Your discussion related to built to suit always said that it should be more attractive, so we would like to understand what the yield on cost of this project is. And also related to the tenants, is it just for e-commerce or is it for retailers? Any specific segment?

And my second question has to do with absorption. We see the vacancy of your portfolio is low, so probably there is absorption, you probably have pre-leases. Is that what is going on? Is it what you are delivering? So probably, when you deliver a project, it is already leased, right?

Sergio Fischer:

Good morning, and thank you for your questions. Let me start by talking about absorption. Yes, 75 % of the figures achieved in the 1Q were pre-leased. So these are ongoing construction projects that are very close to completion, almost 100% leased throughout the construction period, and that is national, it is domestic. We have been able to do that nationwide from North to South. We have construction sites in all five regions of the country, with very high levels of leasing.

So we have seen this trend. It is an increasing trend, especially involving e-commerce. 2/3 of these leases are for e-commerce platforms exclusively, and those customers prepare in advance and they are willing to pay pre-leases sometimes, even when the construction site is just beginning, or about to begin.

Related to BTS, I cannot say the name of the client, but it is an exclusive e-commerce platform. It only operates e-commerce. And about the yield on cost, it is about 8.1.

We are checking BTS, we are going to focus on that. There are some large BTS projects in negotiation in addition to this one we are about to complete in the 2Q, but the yield should be close to 12. This is our threshold, so that we can continue with our investment.

So we expect to reach 12.1 of yield on cost on this project, and the construction project will start in May. This is quick. It is a large project, but it is quickly constructed, and in the 1H or 2H of next year it should be delivered next year.

Alex Ferraz:

Thank you, Sergio.

Elvis Credendio, BTG Pactual:

Good morning. I have two questions on our side. First, related to competition, we see that there is heated demand, especially outside São Paulo and Rio. And given this growth absorption that is a little bit stronger now, the Company has always said that it did not see professional competitors in these regions. Do you think that competition could be higher because of the increase in demand in these regions?

And my second question has to do with the yield on cost, specifically on the warehouses. We see an increase in the prices of steel. I know it is hard to compare, but do you think that there is room to increase the leases for speculative warehouses? How do you feel the negotiations with their tenants related to this?

Sergio Fischer:

Thank you for your question. Regarding yield, that is exactly that. We are being surprised with this. In fact, our industry is exposed to the cost of steel, and steel prices have increased. We still expect more increases throughout the year. This has impacted our construction sites. We thought that this would only last in 2020, but that is not true. We started this year with a strong pressure on prices as well.

The fact of the yield is positive, prices have followed up this cost, even a little bit higher than that. People were positive in terms of the yield on cost of the ongoing projects.

I think that IGP-M, 20% to 30% in the past month, and of course, we cannot just use the same rate, but this has affected the industry as a whole and it has a positive impact for us. We have been able to keep and even improve the yield on cost in our ongoing projects.

Regarding competition, we do not see any organized player moving towards doing what we do. What we see is sometimes a player in one specific city to implement a project, but not nationwide as we do.

Maybe this will happen in the future. Of course, this is an industry with a high demand. We see that we have been able to deliver good quality and have good return and absorption. So eventually, we might have a higher competition scenario, but we feel comfortable because we have some barriers here at LOG.

The first one is our customer portfolio. We have the largest customer portfolio in this industry. And this client that has helped us become a nationwide solution makes our clients even more loyal to us. So this is a competitive advantage to us.

And also because of the capacity we have. No player in this business is able to have a verticalized company as we do. Because of that, we can deliver good, high quality products, with very competitive prices. We can improve our prices because we have the yield on costs in these rates that I have mentioned.

We feel comfortable with that, and I believe the competition is expected to increase, but nothing that will get in our way, quite the opposite. I think that we have some barriers to be able to profit from this scenario in Brazil.

Elvis Credendio:

Thank you.

Nicole Inui, Bank of America:

Good morning. Thank you for this call, and congratulations on your results. I have a question related to development. In terms of your landbank, and also looking for new plots of land, do you see increase in prices of land in some regions? In the beginning of the year, end of last year, you mentioned that now approvals are taking place faster. Is that the case still? Those are my questions. Thank you.

Sergio Fischer:

About the approvals, overall, we have been able to deliver our projects earlier than planned. Along 2021, we got projects approved within six months, which is a major accomplishment for us.

In the 1Q, we saw impact in some local administrations because of the second wave of the covid-19 pandemic. But it is isolated, it is just in one local administration. The reason why we are able to improve our growth plan Todos Por 1.4 was related to our ability of swiftly getting the approval for our projects. But the problems we have seen are one-offs, and they do not have relevant impact.

Regarding the prices of land, we do not see competition. Of course, in São Paulo, there is a major competition for logistic land, and also in Rio. But except for that, it is difficult to see this type of competition or to face competition with players over the same land, the same plot.

We have been able to make very good purchases, especially through barter, and then our cash exposure is lower. We accept to purchase all the land bank for Todos Por 1.4 this year because we see this ability of having favorable conditions without affecting our cash.

Nicole Inui:

Thank you, Sergio.

André Mazini, Citibank:

Good morning. Thank you for this call. You have 50% of this project. Here in particular, this was a partner that has brought you know-how and capital. One of one of your typical projects, you have a higher stake, and then you send that to a real estate fund and you are a majority shareholder. Does that make sense to you? Will we see more shared projects in the future? And how do you expect to see this built-to-suit projects as of now?

Sergio Fischer:

Mazini, this was a one-off case. We are talking about a partner who brought a very interesting opportunity to us in a very complicated region in terms of land bank, which is Extrema, in the state of Minas Gerais, and this is why we had this 50% share in this business.

The other BTS we have negotiated today, usually LOG has close or a 100% of its shares, and I believe we will continue to operate like that.

André Mazini:

Thank you.

Bruno Mendonça, Bradesco BBI:

Good morning. I have a question about capital structure. After your decision of not moving on with the follow-on, how do you see this evolution on the decision of what projects you are going to take or not? Does that change this decision, the fact that you do not have the follow-on? So how do you see the capital structure evolution? Should we expect a maximum leverage?

And in terms of recycling, have you seen any changes in the cap rates that are negotiated? Any changes in the expected cap rates related to the asset recycling expected for this year?

Sergio Fischer:

Hello, Bruno. Related to capital structure, we are very comfortable to deliver our plan. Today, we have a very low debt, very robust cash position, so we will just continue our operations and focusing on recycling.

Moving to the second part of your question, we do not see a lot of variation at this point. Of course, real estate funds are not as easy as they were last year, but we believe that this is momentary because of the political noise, tax and the pandemic noise. I think that probably things will go back to normal.

So I do not think that there will be a lot of variation in the cap rates that we negotiate, and we feel comfortable because we have a very strong margin. In the past 16 months, we recycled close to R\$300 million, and this was done with margins above 50%.

So, if we see this trend of increased cap rates, we are still going to deliver what André mentioned on his speech. We are still going to deliver above 40% of gross margin, which puts

us in a comfortable position, and we will keep on with our plan, and we plan to match the value of generation in the development we have with recycling, so that we can have cash return.

So we will keep on. We still have some pillars at our disposal, equity recycling into that, and of course, they have different costs involved. The advantage is that we have a position that allows us to make decisions according to the situation.

Bruno Mendonça:

I would like to ask another question. About the operating results of the new assets that were very strong in this quarter, how do you see the evolution of that until the end of the year? Do you believe that this rate will continue? What can we expect from that? This was very relevant in the results of this quarter.

Sergio Fischer:

Bruno, I think that now we have reached a different level. Last year, we saw this trend, and I believe that we will keep at the same levels we had in the 1Q. We have a lot of ongoing projects, we are going to produce close to 500,000 of GLA this year, and this is going to have a very significant impact on value generation.

It is a different level when compared to last year, and in the next quarters, we expect to reach the same levels.

Bruno Mendonça:

Thank you.

Lucas Hoon, XP Investimentos:

Good morning. I would like to understand a few determining factors, whether selling assets to a third party, a real estate fund or your own fund. Is this decision based on price, speed, payment conditions?

Sergio Fischer:

We have a very strong responsibility for being responsible for this real estate fund. It is a long term vision. We want to generate value to the quota holders of this fund. We do not want to do anything crazy about that in terms of price, for example.

If the market is paying a price that we believe is positive, and we find it too strong to be included in LGCP11, we can do elsewhere because we have this long term perspective and we want to protect our shareholders.

Lucas Hoon:

Thank you.

Mateus Barcelos, Queluz Asset (via webcast):

How do you see the possibility of LGCP11 Fund not being able to collect resources for LOG CP assets? Is there a possibility of selling assets to other FIIs?

Andre Vitória:

Mateus, thank you for your question. I will address it in two ways. One, related to a situation when we might not have the resources through recycling in LGCP11. We have other funding alternatives, as we highlighted in our speech.

We also have a perspective that LOG assets are attractive to the market. They are class A assets with great performance. The market is more sensitive, but I believe we will be successful in maintaining this recycling level with important margins, whether it is for LGCP11 or for institutional investors, for other types of investments in the market. We believe will be successful because we have other alternatives.

Renan Ulrich, Clube de Investimentos Infinity (via webcast):

What is the deadline of administrative expenses that you believe feasible in the medium and long term?

Andre Vitória:

Thank you for your question. The Company it is at a different stage when we compare year over year, so our growth is opening new work streams. We believe that in the upcoming year, we will have marginal growths in these expenses. We expect to increase our expenses a little, but we believe that in the next years, it is really going to be a marginal increase when compared to our revenue.

Leandro Alves de Freitas (via webcast):

Good morning. I would like to know what is the approximate percentage of IGP-M that you are transferring to your clients, or charging your clients? Regarding changing the IGP-M rate and replacing that with IPCA, is there anything that happened in 2020 or 2021? And if that is so, how many times was this changed?

Sergio Fischer:

Regarding those contract indexes, half of our contracts use IGP-M, and the other half, IPCA. Regarding IGP-M, during the renegotiation of contracts, sometimes this contract rate is changed from one type to another, from IGP-M to IPCA. About 80% of this rate is applicable at renewal. Regarding IPCA, we have been able to charge it entirely, 100%.

Operator:

Now, we conclude the Q&A session. I would like to turn over to Mr. Fischer and Mr. Vitória for their final remarks.

Sergio Fischer:

This is Sergio. Thank you for your participation. Just to wrap up, I would like to say that we have other BTSs that are being negotiated. We hope to close that in the 2H, but that is explained. So it will be an additional, an inclusion to the Todos Por 1.4 plan. So as soon as we have good news, we will share them with you.

The other point has to do, when I replied Bruno's question, now the Company has reached a new level in terms of value generation in greenfield projects. Now, the plan has gotten more traction, we have record levels of production, and this value is going to be increasingly relevant. You will see this recurring amount of value that is generated by greenfield projects in the future.

This is what I had to share with you. Thank you very much, and have a good day.

Operator:

LOG Commercial Properties conference call is now finished. We thank you for your participation and wish you a nice day.

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