

LOG COMMERCIAL PROPERTIES

Conference Call 3Q21

28 October 2021

Operator:

Hello, ladies and gentlemen, good morning. Welcome to *Log Commercial Properties* videoconference 3Q2021.

We have it with us today. Mr. Sérgio Fisher CEO and André Vitória, CFO, Officer of Investor Relations. We inform you that the presentation is being recorded and translated simultaneously. The translation is available upon clicking on the button interpretation. If you are keeping up in English, you can mute the original audio, clicking on original mute audio. During the presentation of the Company, all participants will have their microphones disabled. Right after will have the Q&A session; in order to ask questions, click on the Q&A button and type your name and your Company. Upon being announced, a request to activate your microphone will be presented, and then activate your microphone and ask your question.

A declaration that may be made here related to operational business goals and others and financial objectives are projections of the Company and may not happen. Political macroeconomic and other operational factors may affect the Company's future and lead to results that differ materially from those expressed in such future considerations. To open the video conference of the results of the 3Q21, Mr. Sérgio Fisher.

Sérgio Fisher:

Good morning, everyone. Thank you for participating in the video of the conference of 3Q21. We have observed a growing demand for quality infrastructure in a large consumption center. In the 3Q21, we have two new BTS contracts for a relevant and e-commerce player. The first, 33 thousand m2 of GLA in Ceará and the second in Pernambuco was 74 thousand m2. During this year, we have had five BTS contracts, totalizing 313 thousand m2 of GLA. Our team has had records. We have had 665 thousand m2 of gross absorption, and high volume in pre-lease comes firm it is a good moment of the Company and the excellent quality of the assets we have by the end of the year, a forecast of only 2,7% of vacancy. We are pleased with the results of the Company, the retail especially e-commerce, which has gone through a process of expansion. This positive scenario is reflected in our operations with 62% of the portfolio with activities related directly or indirectly. We believe it will be ongoing with expressive growth for logistics warehouses, especially for Log, that has high standard assets around important consumer regions in Brazil. The increased demand for quality warehouses has brought a new reality. Comparing the 3Q21 to last year, our rental prices or pre-lease have had contract adjustments of 1.3% above inflation considering our operating portfolio. Our plan *Todos por 1.5*, follows the expected pace. We delivered 4 assets totaling 114 thousand m2 of GLA in the 3Q21 in the three states with 85% pre-lease. We are going to almost double fold the assets. By next year we will have quite more than 1.300 people on our construction site. We continue to have land negotiations, and I have already had at home almost 90% of the landbanks needed for the completion of *Todos por 1.5*. We have achieved 18 cities in 16 states. We are in almost every region of the country, 60% of the population of Brazil in a radius of 100 kilometers.

André Vitória:

Thank you, Sérgio. We focus on growth generation of value, value inactive greenfield; in the trimester, we had 67,4 million of generated value, accruing 218,5 million. This generation of value is, and will be, continue to be recognized; our results continue to be expressed in the 3Q21 we have achieved a net revenue of 94.7 million, 43% greater than the 3Q20. The EBITDA in this 3Q21 has 96.1 million 57% in growth concerning to last year. The revenue keeps on growing, and defaults are near zero, in the order of 0.7. Our balance is very healthy. Our cash flow is 1.1 billion reais with 3.5 billion in assets; it was properties for investments. We captured 450 million reais in that after swap resulted in a cost of CDI plus 1.23% without encumbering our assets; the cost of our debt is low, CDI plus 1.6%, the net debt/equity represents only 7.5%. Our ESG agenda continues stronger, we started in Fortaleza one educational and professionalizing program, we will replicate and expand that in other places. I would like to start now the Q&A session.

Operator:

Thank you. We remind you that to ask questions, click on Q&A, type in your name and the name of your Company. Upon being announced, a request to activate your microphone will appear on the screen, and then you must activate your microphone to be able to ask your questions. Pedro Lobato, from Bradesco BBI. Pedro, we will open your audio so that you can ask your question. Pedro, the floor is yours.

Pedro Lobato:

Good morning, Sérgio and André. I thank you for the opportunity to ask questions. We have two questions. First, the dynamics of leasing. How are you dealing with the repassing of inflation, comparing all the new contracts and competition-wise? Have you felt professionalization of places in the areas out of the Southeast of Brazil? That areas that weren't competitors in the past have you been looking into those areas out of your typical region?

Sérgio Fisher:

This is Sérgio; thank you for the question. Let's start with the competition. We have seen more robust players, and we see them check in one or another market we see that nothing strong and nothing that would concern, as competition, especially out of the Southeast, is very little. We like to mention that the competition is where we get our clients from because we are in a good position. And in the short term, we don't see that changing. The major players are trying to implement one project or another randomly. What we have seen in the last 12 months is that the dynamics of prices are very positive. Not only the precification of new contracts that we have had the capacity to move on to a new state nationally, but that is. And we have existing clients that we have been able to share numbers in this lease over 1.3% in the inflation. We have been to repass area in kind 20, 21, that is. So, we keep on going strong, and we see the fourth and that sector, and there is a very strong room for first to keep on expanding in the short term. Thank you.

Pedro Lobato:

Thank you for your answer.

Operator:

Our next question is by Mr. Elvis Credendio, BPG Pactual. Elvis, the floor is yours.

Elvis Credendio: Good morning, Sérgio, good morning, André. I have two questions. The first one is about recycling; with this scenario with a higher interest rate, cap rates may be higher. I would like to understand how the appetite of the Company is to recycle assets, even with lower margins, if that's the case. Do you think you will end up recycling less than forecast? And my second question is the growth plan of the Company you have 1.5 million square meters. That is a macro scenario in more challenging and recycling, and the costs of debt are likely higher? How would that be in terms of the plan of growth in terms of speed? Do you think you would revise the speed at which you plan on delivering in Brazil results over the next year or not?

Sérgio Fisher:

Thank you, Elvis. This is Sérgio speaking. The two questions are interconnected. We are still delivering the quality, we don't see this scenario changing. It's a quality. We have had quality in terms of return. We believe that we can take that even further up. The cost of construction is stabilized at a very high level, and there may be a reduction in those costs, especially when it comes to the price of steel and this dynamic of prices that we have mentioned, we plan on even improving, but not in this semester. We have been able to deliver quality, and we don't plan on changing that. In terms of recycling, independent of the funnel of this growth, we want to maintain what we are to going to keep. And we understand that in this macro scenario, these interest rates, in the order of two digits, will have a reduction in spreads; caps may go as likely above and have a reduction in margin, but we are very comfortable, in the last 18 months, the transactions that we have had recently nearly 500,000 thousand reais with growth margins near 44%. If we work to bring a little more cap and lessen the spread, we would still be above 30%, which is still a very good level. Our appetite hasn't changed. We understand, and there is a sense in what we are planning. We want to keep on having assets of high quality. We have been contacted by even competitors; our appetite is not different, is no different from before. There has been an adaptation, but we have had this search from funds in the real estate area. We are going to increase at a certain point. We have had demands that are on growing. So while it remains like that, we are going to keep the plan for growth with the necessary question. That is.

Sérgio Fisher:

Great. Thank you, Sérgio.

Operator:

Our next question comes from Alex Ferraz, from Itaú BBA. Alex, your audio will be open so you can ask your question. Please, the floor is yours.

Alex Ferraz:

Good morning, Sérgio, André; thank you for the presentations. BTS, you mentioned here that warehouses with tech specifications that are state-of-the-art. How do you see the cost of square meter the portfolio and the lease as well within the portfolio? How do these warehouses compare to the average in the portfolio? When you have a lot to deliver, will you end up forcing the vacancy in the way in certain directions? This growth, in other words, it's stabilized is more sales of assets, or do you have other points that came from the portfolio?

Sérgio Fisher:

This is Sérgio. The stabilized vacancy was very marginal this movement where we had a historical record from the Company and if think below 5% is still very strong. Would we always have new clients; some clients leave because their operations move on to different places. That's why there are

vacancies, 2.1, 2.7; we understand as a regular movement in the market and our type of business, so it's not concerning. There is a used, that's very strong, and below five, we are still satisfied with BTS. Otherwise, they are very specific with a specification that is very typical of them. We put to you that this is an investment done out of the United States. This is the first one with that type of specification, and it's this is a CAPEX that is much higher than the square meters. And the important part here is that we are with these two contracts with a target of more than 11% in yield on cost, that we consider super positive with that. So, I think with that I answered your question.

Alex Ferraz:

Thank you, Sérgio.

Operator

The next question comes from Raul Grego from Eleven Financial. Raoul, we will open your audio so that you can ask your question. Raul, the floor is yours.

Raul Grego: Good morning, Sérgio. The Company's strategy with the growths and comparing the demand for BTS or pre-leasing doesn't affect the long-term plan of the Company in terms of adjustments of the price of leasing and rent even with contracts. If they are going to be reviewed, we are going to see more contracts of long-term in comparison to traditional contracts.

Sérgio Fisher:

Sérgio here. You're right, that's very important. We like this strategy of retail because of that dynamic we can repass on the price and adjust as we found fit. We are going to continue with the retail strategy with that type of project. These opportunities BTS we are not going to stop looking at them, but they are never going to go above 50%, which is the ceiling of within the plans of the Company. We are going to speculate; we understand the dynamic of demands, that is higher to a client that is much more ample, two strategies them but more focused on these strategic plans that I mentioned.

Raul Grego:

I thank you. It's to understand whether there will be a difference in a change or whether it's a complementary action. So that we understand what kind of changes may be on the way; another question with the increase of cost of CDI, for instance, the SELIC indicator. If you are being able to raise rental maintaining spread and cost

Sérgio Fisher:

Sérgio again. Yield, that's it, we have been able to keep yield around 12, even with this pressure. We have a positive bias now. We have stabilized on a high level, and we can have that balanced out in the medium term. Spread is very strong, precification is better and better, and that is affecting the yield. BTSs, that's what you commented, they are complementary, they complement each other. BTS maybe be more interested in third parties; we can have recycled more focused on BTS and maintaining all the while our portfolio as it is in the Company.

Raul Grego:

Thank you. Have a great day.

Operator:

The next question is from André Mazzini, Citibank. André, the floor is yours.

André Mazzini:

Hi, Sérgio, André, thank you for the call. This last point that Sérgio mentions, BTS has more liquidity for other players considering that this SELIC rate is going up, GP is going up. We know that the office in São Paulo had some interest for another type of market player. It's not only a real estate market but also more than that. If you have this liquid portfolio outside the axis RJ/SP, that's players have the appetite to buy them? Do you consider them buying and going into these different portfolios expanding? And if my question was clear, I would like you to talk further about BTS contracts. They are longer than the conventional ones, but when we look at Chile and the United States of America, they reach up to 30 years. The average in Brazil is 10 years. There is room for going up in terms of BTS with shorter contracts and modular limits thresholds even.

Sérgio Fisher:

Sérgio again. Regarding the liquidity of assets that I mentioned earlier, it is a matter of the fact that we have had conversations with additional players, all very excited about the matter of BTS. These clients that we have are very strong ones. So, independently of the region, we know that it is important, but we have had Pernambuco and Ceará, for instance, that have been very strong areas and people understand that's a good field. Occasionally will have steps. We will thread onto these different areas, BTS 270 million reais. It was a good number. We'll keep on looking at those points, and we'll have transactions in that level, BTS periods and deadlines, and terms, 10 to 15 years, is what we have seen the chance of those clients actually quitting altogether at the end of the period, is very slim. It's a lot of investment; it's a lot of employment generation. We have clients with three shifts with more than 2,000 people employed. So it's a win-win situation. In terms of dynamics of markets, the terms have been between 10 and 12 years.

André Mazzini:

Thank you.

Operator:

Our next question comes from Aline Caldeira, from Bank of America. Aline, I will open your audio for you to ask your question. Aline, the floor is yours.

Aline Caldeira:

Good morning. Congratulations on the results. Thank you for giving me your room here. I think my question is about regions. Next year will be very important in terms of delivery. And what you see mostly is out of the axis RJ/SP. Can you give us an idea of what you still have to deliver and to deliver not only by the end of this year but next year? And are you seeing leasing? So, having the rental prices going up? Is there an area that stands out among the others or not?

Sérgio Fisher:

Well, rentals. I would like to show numbers that I think are interesting that Log, if we take 20, 21, 665 thousand m2 of least area, 70% of this leasing are for existent clients. In any region of Brazil that those are our very base. It has been nationwide. There isn't much disparity between regions. Next year we'll have a very strong delivery more than 400 thousand m2, a of this 400,000 will deliver in the fourth quarter. And if next 3-4 quarters, we'll have deliveries in all regions. So, it's very linear, there will not be outstanding regions. I would like to focus on pre-leasing. We opened that number with all this delivery that we had 113 thousand m2 of GLA, that 85% had been pre-leased. It's a very strong number. We have a curve here that is probably going to stabilize the asset in 90 to 95% of leasing accomplished

in one year, and it's a totally different reality. It shows the strength of our sector currently. And when you look ahead, as we look into the future, we have deliveries of a certain volume for the early months of next year within GLA. This is a moment that is unique and will be delivering a lot of things in 2022 and a lot of things pre-leased.

Aline Caldeira:

It was very clear. Thank you.

Operator:

The next question comes from Alex André, from Sarah Invest. Alex, we will open your audio so that you can ask your question. You can proceed. Alex, the floor is yours.

Alex André:

Good morning, all. The pressure of cost on enterprises and construction and the margin concerning the costs that have been affected.

Sérgio Fisher:

This is Sérgio. Our costs increased in the order of 30%. Metal structures are more than one-third of our raw material, and it has been increased in terms of prices. Positively, we have been able to pass on the price to maintain stability. So, on a positive note, we don't see a negative bias in that sense. We see the possibility to increase that yield once we understand that. Very soon, we'll have a drop in the cost of the steel, and dynamics has been on growing, but this is what we have this information, or so far costs have grown, but I think we in the midterm, we can even improve these prices. Thank you.

The next question is from Fanny Orenghi, from Santander. Fanny, the floor is yours. Please go on.

Fanny Orenghi:

Good morning. My question is: you have an e-commerce basis of clients very large, most of the preceding the ones in Brazil. We know there is a constant demand on growing for solutions last mile. I know there is a lot of space room to grow in the warehouse market, but there is a point that may impair your expansion in the market the last mile. How do you see that? Thank you, Fanny.

Sérgio Fisher:

Hi, Fanny, thank you for the question. The last mile we know, with of that, quite well, we hear from our clients. Each client has a different type of operation. They have their own ways. We consider our whole portfolio, not only operational but development, as well as the capacity to serve 15 km from the center of that populational region. For instance, we haven't had a problem with seeing that we have the last mile in our whole project, but there are very central operations. We have studied many projects in that sense. We know that we have seen a lot of difficult situations. We have a leasing rental price, very much higher than the average. We're not going into that now, our clients do not require that at this point. We are keeping with our model of business. And so, therefore, the last mile is explained within this context.

Operator:

The Q&A session is adjourned. Mr. Sérgio, please share your final considerations with us.

Sérgio Fisher:

Thank you all for the call. I'd like to brain points to light here. Delivery will have, as an Aline question, we have delivered 114 thousand m2 in the next quarter will have a lot of delivery, is natural the vacancy of the Company altogether is to increase. That is not a point of concern. We see a demand that is stronger and stronger, and that is mapped out 85% was by pre-leasing is very positive. That's why we like to point out the stabilized vacancy that it's a very stable level in the next quarters. But as long as we are below five or four, we are satisfied and will have a change in the portfolio of the Company in the next quarters, and we are very excited for 2022 to arrive. Despite all the challenges that we see ahead of us operationally, our business is doing well, and we are going to deliver a lot in the future. Thank you, all, and till next time.

Operator:

The video conference of results of Log is here adjourned. If you have doubts, please contact us in touch with ri@logcp.com.br. Have a great day.