



LOG COMMERCIAL PROPERTIES

3Q Results Conference Call

October 30, 2020

Operator:

Ladies and gentlemen, good morning. Thank you for waiting, and welcome to the conference call for earnings concerning 3Q20. We have with us Mr. Sergio Fischer, Chairman of LOG, and Mr. André Vitória, CFO and Investor Relations.

This event is being recorded and is being translated simultaneously. You will be in listen-only mode during the presentation. Next, we will begin the Q&A session, when further instructions will be supplied. If you need any assistance during the conference call, please request the help of an operator by dialing *0.

We would like to say that any declarations that may be made during this conference call concerning the business outlook for LOG, operational and financial goals, are based on projections of the Company's board that may or may not occur. Investors should understand that political and macroeconomic factors, and other operational factors may affect the future of the Company and lead to results that may differ materially from those expressed.

To begin the conference call for 3Q, we pass the floor to Mr. Sergio Fischer, Chairman of LOG.

Sergio Fischer:

Good morning to all. Welcome to our conference call for earnings in 3Q. Our operational results placed the Company at its best performance, with the plan All for One.

When we launched the plan All for One in October 2019, we wanted to add 1 million m² to the assets of the Company. We noticed a great lack of class a assets in many regions around Brazil, and we saw a unique opportunity to really go to consumption centers where we were not able. We wanted to use our development capacity. We are unbeatable in this segment to generate returns above average, and also with modular buildings in these markets.

On that occasion, we already had a good portfolio of clients in order to grow, and the customer base allows us to go into regions we have not explored, less with low risk and high occupation.

We have today what we consider to be the largest and best portfolio of clients. 230 active contracts, mid-sized and large companies that work in the whole country. We had already understood that these characteristics would really give us a competitive edge, which is difficult to replicate. This could bring growing benefits as we grow.

It was not possible to anticipate that the recent events, the pandemic would confirm our plans in our plan All for One, and that we would see now that we are on the right track. We had strong result in each development cycle, excellent commercial performance, and a record absorption of 320,000 m² in the last five months. And also, we had 62% growth in relation to 2019.

In 15 cities, four companies and three economic sectors at the same time, we reached a record occupation level with only 3.5% of vacancy. In 2020, the internal commercial team was responsible, they were able to rent 2/3 of what we built. In the 3Q, our customer base absorbed 70% of the ABL that was rented.

We are diversifying our operations. LOG is present in 31 cities and three states, with branches confirmed in all the regions of the country. We have the most diversified portfolio. We are close to all the consumption centers. 100% of our condominiums are class A and modular, and this allows us to work with a total solution, a one-stop shop for most of the clients. These clients count with us to expand their operations.

With these relationships in sales on and on a day to day operation in rental, this quarter, we got the best grade in our satisfaction survey, the highest grade.

In 3Q, we delivered in ten month, in record time, 19,000 m² in our project in the city of Uberaba, and we anticipated deliveries in the 4Q. We also began 130,000 m² of new projects in three states. Three of them are part of the acquisitions of the land bank after the plan, All for One. So we have agility in getting approval for the projects, licensing and construction, which is very positive for our growth.

The demand for e-commerce and the expansion in the regions where we are closest brought us even closer to e-commerce platforms, and also retail companies that are using more and more online.

In 3Q, 38% of new rentals were for operations totally dedicated to e-commerce. So almost 45% has to do with the online. Due to this, the acquisitions of land bank foreseen of 700,000 m² in 2021 were anticipated. In 3Q, we added two plots of land in two cities, reaching 52% of the ABL foreseen, and we are already negotiating for almost all the rentals. We have made good negotiations in the cities where we are interested, most of them via exchange, as we have done.

Our LOG's business model is to develop greenfield projects, transforming plots of land into value generating projects. As we evolve, as we grow, we accelerate the purchase of plots of land for the land bank and we capture and deliver value to the shareholders.

In 3Q, the development of four projects brought R\$114 million. As of the next year, the trend is for our activities in development to become stronger intensified.

I will pass the floor to André for the financial highlights.

André Vitória:

Thank you, Sergio. Continuing with the virtuous cycle of value generation shown by Sergio, the operational performance is also very positive. We can see this in the financial results that we had in 3Q20.

Our indicators continue solid. Net operational revenue grew 11% when compared to the same period in 2019. Net delinquency in 12 months was 0.3%. EBITDA reached a level of R\$147 million, a growth of 103% year over year. We reported a net profit of R\$66 million, with R\$114 million due to the value generated, and these values also include the societary organization expenses that were necessary. This is very important in our growth plan, and shows strongly that our business plan is positive.

So we will have recurring effects as a natural effect developing assets. To record this effect in the beginning phase of the plan All for One shows us what we can expect as we go forward.

This effect will also happen and result in more dividends as more value is generated. We are permanently looking at opportunities for financing for the growth plan of the Company. We monitor the sources of financing available, with healthy expansion of the debt or recycling assets.

In 3Q20, we are placing for sale parts of five minority assets, and we expect to raise R\$146 million capital for investments. This is the second time that we recycle in the fund LGCP11, to consolidate this important source of funding in the growth plan of the Company.

The capital markets have shown interest for the assets in investment funds with real estate, especially in the area of logistics. The expectation is to offer the same diversified options. The rhythm will continue to be determined by market opportunities, and also due to the capital demand in our expansion plan.

Thus, we would like to conclude the presentation, and now we will begin the Q&A session. Thank you very much.

Gustavo Cambauva, BTG Pactual:

Good morning. I have two questions. The first, within your growth plan, do you see you are having a little more competition? The sector had a good performance in spite of the crisis, and the yields are high in comparison with the interest rate. Looking at what you have mapped in terms of competition, do you see any stronger movements, more competition, and an increase in ABL in the future? Do you believe you will have a greater pipeline, or will you continue in the cities where you are, where you have less competition?

My second question has to do with IGP-M, the inflation. Are you being able to charge higher prices due to inflation, renegotiating contracts? Are your clients accepting higher rental rates? What is your expectation in terms of increasing revenue by increasing rental prices?

Sergio Fischer:

Good morning, Cambauva. Concerning competition, we have a large geographic diversification plan. In the new cities where we are going, we do not see an organized competition. We have one or another project with local companies, but nothing organized. We do not see an organized player to be a competitor.

For BDF, the business model we have looked, we have more competition, larger operations. So our strategy in this line is, we will only go into a project if there is an interesting yield. Only with an interesting yield.

Concerning competition, what do I believe? Brazil's statistics show 150 million to 160 million m² of obsolete real estate. So there is a lot of space for growth for class A projects. And e-commerce has grown very strongly recently, and will demand more and more space. So on competition, that is it.

On IGP-M, inflation, recently, it is beginning to increase the contracts from October, that will mature in October. It is 20% higher this year. We will be able to charge clients a higher price due to inflation, and I believe that the trend is to get higher.

We will negotiate case by case, depending on what they pay. We consider many points, but we have been able to, yes, charge the difference in inflation to most of the contracts.

Gustavo Cambauva:

Thank you. Good morning.

Alex Ferraz, Itaú BBA:

Good morning. Thank you for the presentation. I have two questions, the first concerning delinquency. You talked about the revenue. I remember that in the beginning of the pandemic, we talked about pharma e-commerce, but there was a concern with other sectors, automotive, for example. Looking at delinquency, it seems that everything is under control in the portfolio as a whole. Is that the real situation? How about those other sectors? Are all the tenants very healthy?

And the second, concerning the industrial area in Betim, in the state of Minas Gerais, when we look at the project, it seems to be progressing slowly. Is there a reason?

Sergio Fischer:

Thank you for the question. I will answer about the PIB. PIB a long term project, and the industry suffered in the beginning of the pandemic, and we decided to continue with the construction.

The strategy, first, we want to anchor this park where we are selling plots of land and buildings, so there are large industrial players in this location. Once it is anchored, we should be more aggressive in marketing.

But it is very promising here. I believe it is going to give us a lot of joy in the future. So we are trying to take to the park new companies. That is the strategy. We did not slowdown in construction. First, we are anchoring some clients, and then we will be more aggressive in sales.

André Vitória:

Concerning delinquency, what we can see, in relation to the rental that was delayed in 2Q, we had 0% delinquency, those who delayed payments. And accumulated delinquency in September was close to zero.

This shows the quality of our portfolio of clients, and also the work we did and the proximity to the portfolio. Everything that is discussed internally has allowed us to have these positive results in relation to delinquency.

Alex Ferraz:

OK. Thank you.

André Mazini, Citibank:

Good morning. My first question is about the land bank. Sergio mentioned that most of the land bank was bought by exchange, by barter. So, in this new landbank, can you give us more details about the barter contracts, the exchange contracts? On the other hand, for example, if you change your plans, do you have to pay penalties? Do they have to pay?

Another point you mentioned, something interesting, value generation, R\$114 million, with the development of four assets. Please explain, how did you get to this number? Is it the difference between cost of development and other things, or is it different?

Sergio Fischer:

Thank you for the question. Concerning land bank, we have been able to make these acquisitions with bater, which is very favorable for us. So the people, they cannot withdraw from the sale, the owners of the land, they cannot withdraw. And the percentage, as you ask, depends on each city. We have 15% for barter, exchange 30%.

All the contracts are made in the following way, the absorption will really show us the progress. The owners of the land are also interested in this. So the contracts, they show that the absorption and construction will be taken into consideration.

The value that we are generating developing these assets, this is transformational for LOG CP. We see a lot of value generation now and in the future, It is the difference between the yield on cost, the spread and the cap of the project after stabilization.

This is calculated by an outside consultancy company. As we deliver new buildings, there is this value generation that is close to R\$1,000 per ABL. So we spend for land and construction and then it is worth much more when it is ready.

This is the first step of our plan All for One. In the next few years, we will accelerate this plan, and we believe this value will be generated and increase more and more.

André Mazini:

Thank you, Sergio. Very clear.

Gabriella Tak, Bank of America:

Good morning, Sergio. Thank you for the call. I have a question concerning the rental activity. Could you talk about the demand? Any highlights in any region concerning net absorption, whether the driver of demand continues to be quality? Do you see any change in the in the clients? And assets under construction, do you have them already rented?

Sergio Fischer:

Thank you for the question. We have felt a strong growth in demand, and in a uniform way. We are very optimistic with LOG's base, this additional demand to grow in all the regions. We have seen that things are working very well.

There is no region that is different or stronger. We see, on a national base, a lot of demand, a strong demand, especially from ecommerce. 40% of the rentals in 3Q were for e-commerce companies. We have been able to rent these projects before they are delivered. 93% are already rented, those under construction. This is very strong. There is a curve of absorption of a few months after delivery. We are being able to anticipate and already rent the space. We have a lot to do. E-commerce has been very strong.

So we believe that from now on, this demand will continue on a national level everywhere, and these players are becoming more mature and are requesting more buildings closer to the consumption centers.

We also have new clients, so we are very happy with the increase. The logistics market is growing, and this is here to stay.

Raul Grego, Eleven Financial:

Good morning. A question in relation to the price, the renegotiations. In the next 12 months, you have another 27% of contracts that will mature. How is the renegotiation of the rental prices? Do you have any type of spread? Are you being able to readjust the rental prices according to inflation or above inflation? We see that there is a lot of demand and development of new assets, but in relation to prices, we see that it has stabilized.

Sergio Fischer:

Before the pandemic, we had more bargaining power. We were able to charge contract readjustments above inflation. Now, with renegotiations and movements during the pandemic, we lost some power. So the contracts renewed during this period have stable prices, in line with inflation.

In the future, we do not know. It is very early to talk. Some clients. Have asked some things, and we study case by case.

Marcelo Motta, JPMorgan:

A quick question, an issue about competition. This could affect, but the Company is really well positioned. I would like to know a little more about inflation. We hear some companies saying that some contracts are not delivering materials. Projects are not immediate, but just to know if you have some concern about the increase in raw materials, if this could cause a compression in the business.

Sergio Fischer:

What we have seen in the year is pressure in costs, especially steel and concrete. We estimate this has impacted our cost in about 4% to 5% in building. But the advantage is that we have gained in productivity.

We have a record of deliveries in the quarter. Many works were concluded, so we have offset some of this additional costs. But in the future, if the industry has inventory, we will have a reduction in the pressure. And next year, it will be better. This is our vision.

But our costs are not really impacted, because we have been able to manage with the new projects in relations to the initial forecast, maintaining our costs healthy, above the 2% per year that is our target.

Marcelo Motta:

Thank you, Sergio.

Guilherme Ebaid, Empiricus (via webcast):

Good morning. My question has to do with future expectations. How do you see the negotiation of land? Is the high in terrains prices requiring a disbursement of a higher amount? How do you see this impacting the cost of building?

Sergio Fischer:

In land costs, we have no competition outside of Southeast. We look at opportunities in all of Brazil, Rio de Janeiro, Minas Gerais. We have more competition to Southeast, but in the rest of the country, we are basically home alone. Maybe one or another local competitor.

So we have been able to negotiate land with baters, and we have anticipated, in fact. We have a higher demand, with capacity of putting more land bank into the Company, and we have done that when the opportunity appears with baters, to reach the total replenishment of the land bank.

Operator:

We finish now our questions and answer session. Sergio and André have the floor for their final considerations.

Sergio Fischer:

Once again, I would like to review and reinforce three points. First, demand. We have a deep demand. The market has grown on a national basis, and this is very good for us.

Second point, the value that we mentioned before of the assets. We have a good spread between the costs of delivery and the cap of the valuation of these assets. We see that in the future we will have good results for our bottom line. This is a growing trend.

And a third point, the case of our strategy of recycling. We have a new offer with CP11 underway. We want to maintain the strategy. This is a very good source of income for the Company, very helpful as we grow. So we will continue to look at this with loving eyes.

That is it. Thank you very much. Have a good day.

Operator:

This call has ended. Thank you very much, and have an excellent.

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