



## **LOG COMMERCIAL PROPERTIES**

### **1Q24 Results Conference Call**

**April 25, 2024**

**Operator:**

Good morning, ladies and gentlemen. Welcome to the conference call of the earnings release of LOG Commercial Properties referring to the earnings release of the 1Q24. We have here with us today, Sérgio Fischer, CEO; André Vitoria, CFO and Investor Relations Officer; and Henrique Schuffner, Director of Finance and Investor Relations.

We would like to inform you that the presentation is being recorded and translated simultaneously. Translation is available by clicking on interpretation. For those listening to it in English, there is also the option of muting original audio.

During the presentation of the Company, all participants will be in listen-only mode. Next, we are going to start with our Q&A session. To ask a question, please click on the Q&A and type your name and company's name. Once you are called, you are going to receive a 'mic opening' on your screen. Click on it and ask your questions.

Before moving on, we would like to clarify that statements that may be made during this conference call with respect to business prospects, forecast, operational and financial goals of LOG are all based on the assumptions of the Executive Board of the Company, which may or may not occur. Investors should understand that political macroeconomic and other operational factors may affect the future performance of the Company and lead to results which may differ materially from those expressed in these forward-looking statements.

To open our conference call this morning for the earnings release of the 1Q24. I would like to hand it over to Mr. Sérgio Fischer.

**Sérgio Fischer:**

Good morning. Thank you very much for your participation in LOG's 1Q24 earnings release call.

LOG has been demonstrating the attractiveness and liquidity of its assets. We have recently completed the recycling of the assets LOG Betim and LOG Salvador to the real estate investment fund BTLC11. The 2 assets added up to 138,000 in m<sup>2</sup> of GLA and totaled R\$509 million in size, with significant gross margin of 41%. This is the third transaction with this fund, which now manages approximately R\$1.5 billion in assets sold by LOG, totaling 430,000 m<sup>2</sup> of GLA.

As in previous sales, we maintained the execution of the management and administration contracts of the condominium, which allows us to retain commercial and market intelligence. In the last 12 months, LOG has accumulated more than R\$1.7 billion in sales of assets with high margins, which demonstrate our competencies in the development of greenfield projects with high returns.

In sales, we have IRR of 27.3% of LOG Salvador. It shows that we can get liquidity and gross margin growth levers, combining yield cost increase with cap rate compression. The scenario has benefited

LOG, especially regarding the downward trend in interest rates, which directly reflects on the heating up of the real estate investment fund market and creates opportunities for cap rate compression. In addition, LOG has achieved yield on costs close to 13%, which results in increased margins in asset recycling.

We have made progress in the execution of Todos por Um 5 and LOG 2 Million plans, which are important for the sustainable increase of the companies. We are reaching a new level of the deliveries of 500,000 m<sup>2</sup> of GLA per year, strengthening our growth. On the operational side, it's important to highlight the quarter deliveries of 57,000 m<sup>2</sup> of GLA, 100% pre-leasing. They were in LOG Natal and LOG BH, presenting average ticket of R\$23.63 per m<sup>2</sup>.

The strong demand for LOG's assets in all regions has allowed us to report a high absorbing speed, which was 134,000 m<sup>2</sup> of GLA in the 1Q. With the deliveries, we have reached a milestone of 2 million m<sup>2</sup> of GLA, historically delivered in all regions. We produced 93,000 m<sup>2</sup> of GLA during the quarter, an increase of 27% over the previous quarter. Then, due to our geographic and sector diversification strategy, I highlight a stabilized vacancy rate below 1%.

Let me hand over to André now.

**André Vitória:**

Rental revenue ended the period at R\$53.8 million. Despite a decrease compared to the same quarter last year, this result is mainly due to asset sales made in the last year. Excluding the sales, the Company would have recorded revenue growth of 31%.

The Company's asset sales strategy has as its main goal the generation of shareholders' value, aligning the capital structure with the needs and objectives of LOG's growth plan. The positive price dynamics in the market, combined with the quality of our assets, have allowed us to renew contracts with average adjustments above inflation, with an average ticket growing from 15.52% in 2020 to 20.62% in the 1Q24.

Cumulative net delinquency over the last 12 months represented only 0.68% of accounts receivable. The Company is projecting a significant increase in rental revenue between 2024 and 2028, annualized revenue growth of 2.3% and 2.7x, and reviewed CAGR between 20% and 25%.

Excluding depreciation and amortization, operating expenses were R\$14.5 million. The Company is already prepared for the new production level of 500,000 m<sup>2</sup> of GLA per year as of 2024, and the revenue of LOG administration was R\$2.7 million in the quarter. CAPEX was R\$158.1 million. EBITDA in the quarter was R\$74 million, up 36.4% year-on-year, while lease EBITDA reached R\$38.8 million, with margin of 72.1%.

The financial result improved by 65% over the 1Q23 due to the increase in financial revenues and gradual decrease in interest rates. The deferred tax is constituted according to the Company's business cycle. And net income was R\$53.3 million, 90.1% higher than the same period last year. The Company generated operating cash R\$28.2 million in the 1Q24. And our position, considering the asset sales in April, reached R\$1.1 billion.

Let me now hand it over to Henrique to talk about the Company's structure.

## **Henrique Schuffner:**

The Company's strategy of aligning its capital structure with its growth needs and objectives is evidenced by the significant reduction in net debt. In the 1Q24, net debt adjusted for receivables from sales decreased by 37.4% over the same quarter of the previous year. With sales disclosed last week, we had additional reduction of approximately R\$500 million in net debt. Adjusted leverage ended the quarter at 2.6x. Considering the asset sales in April, leverage reached 0.8x.

The Company made the amortization of R\$95.8 million of debt in the quarter and issued R\$200 million in debt, with an average cost of CDI+0.95% per year, demonstrating the trend of reduction in the effective cost of vision in LOG. Adjusted net LTV improved from 23.7% in the 1Q23 to 16.4% in the 1Q24. Our capital structure has solid position in liquidity, with recurring opportunities to reduce costs and extending the term in line with our organic growth business model.

We now move on to the Q&A session.

## **Bruno Mendonça, Bradesco BBI:**

Good morning. Thank you for the presentation. I want to ask a question about the plan of LOG 2 Million. By selling the assets, as you have announced we can see the leverage going back to very low levels. But the LOG 2 Million plan is a very relevant CAPEX plan. We are talking about some billions of BRL in the next 4 years. I want to hear more from you, how are you going to move on with the leverage, considering potential scenarios that may take place in the next 4 years?

We can see the interest rates going down, which is very helpful, bringing back investment funds, and you are making good sales. But I would like to understand for the near future, where we might have an increase in interest rates, how are you going to decide to start a new project? What's going to be your priorities?

I understand that you have been prioritizing recycling as an investment strategy much more than equity or net cap. But deciding on the new project, if the interest rate is not very favorable, what will it be? Delay beginning of construction? Are you going to sell the asset at a lower value? Please tell us a bit more about that. Just trying to understand how you are going to deal with leverage throughout the LOG 2 Million plan.

## **Sérgio Fischer:**

Bruno, as we have modeled LOG 2 Million, 100% of the resources for CAPEX will come from asset recycling. We have been having very good transactions even during delicate moments, such as last year. Last year was a record year for us with a 14% interest rate, and still, we have got very positive transactions, very close to what we want and the CAPEX of 8%. So we are going to maintain the same plan.

As the CAPEX is happening, as investments are made, we are going to match asset recycling and the financial volumes of the investments. This year, for example, we expect to invest R\$850 million to R\$900 million, 100% funded by asset recycling.

Of course, things may change as it normally happens, and our idea is, while we are delivering spread with very satisfactory yields on costs, such as in 2023, it was 13.2%, the number we delivered, and this year, we can keep on delivering yield of 13%. And if the CAPEX close to our NAV, 8%, we are going to speed up, because we are delivering quality and margin.

I do not think that's going to change. Even with the deterioration of the macroeconomic scenario, we can still deliver spread. But let's be conservative. We will be very careful with our net debt, maintaining adjusted net debt at R\$700 million is a positive number to us to the size of our Company, and this may change with growth that we expect to have in upcoming years.

But this is the number that makes us comfortable. And that net debt over EBITDA, which is very low, 0.8% of net debt over EBITDA after the transactions in April. So we still have got space in our balance sheet to keep on growing, and this is how we are going to do it.

**Bruno Mendonça:**

An important detail about timing. If the market of asset recycling just has a downturn, would you expect to hold projects you want to run with enough cash level? Fine. But to have, what, a CAPEX for the next year or close the projects you have already started? Is that what you are thinking? And you would not start anything new unless you have asset recycling as expected. Have I understood that right?

**Sérgio Fischer:**

Exactly. We are not going to start anything new unless we have really comfortable level of appropriate asset recycling levels. We do not want to leverage the Company strongly again, without having the guarantee that we are going to have the resources. We will keep on measuring and analyzing.

I would say we are very optimistic. We just have got so many proposals, requests of purchase of our assets. So selling with more quality, really, we are going to do that. We have been succeeding. There are some other ongoing transactions. So it really makes us comfortable, always with enough cash to complete the assets under construction.

**André Mazini, Citi:**

Thank you very much for the opportunity. I have a first question about the gap. Contracts closed in margin, R\$23 per m<sup>2</sup>, and the average of the Company, which is 15, about R\$20 per m<sup>2</sup>. How long do you expect it to catch up to have it as the overall? LOG contracts do not get to that revision of contract reanalysis, so the great opportunity to increase the average ticket of contract margins is during the contract maturity. If it's a 5-year contract, I would say 20% of them having a churn per year? Do you expect to operate like that, or do you want to speed it up?

Secondly, about taxes. Yesterday, there was a decision by the courts showing a favorable decision for tax incentives. So it's a broader question, really. Do you have any definition about tax rates in the tax reform with CBS and the new VATs that they are introducing? Have you already analyzed that?

**Sérgio Fischer:**

Thank you, Mazini. I am going to talk about the mid-ticket gap and then hand it over to André to talk about the other items. Considering the market values of our operational properties and the ticket in place, there is a 15% difference, a different percent gap.

There are 2 ways of catching it up. First, churn rate, because historically, we can get a 10% from the basis of the assets on a yearly basis, and this is an opportunity to increase average ticket. In recent quarters, the number went down because the market is strong. Clients are staying longer in the operation, renewing the term. So it's negative in terms of closing the gap.

Secondly, when the contract is over, as you said, 15% to 20% per year, clients are back on table for negotiation. It's long-term work. It's not something to be done overnight. In the last 7 quarters, we have had a mid-spread higher than inflation. So 7 consecutive spread, and I think that the trend is going to be maintained, but it's mid-term work, you see, until we get 0 gap.

Prices are still going up. We can review the table of projects on a monthly basis. We always try to increase prices. So we expect to have the gap still along these lines until we can have improvement also on the price range.

**André Vitória:**

Talking about the tax reform yesterday, we saw the complementary proposal being brought to the Congress about the tax reform. And we are within a specific category for real estate. What we have noticed that, first, the proposal includes a 20% reduction of the current rate. If it were 30%, that will be a 20% discount, plus a reduction in the calculation basis, and that would depend on the operation being executed.

I think it's still too well. We have been observing, but now we are going to have more clarity. During the upcoming weeks, we will be able to analyze it further.

When you talk about tax incentives, we have no exposure to incentivized areas. And I think that for businesspeople, it's more important to have predictability than incentives, because there might be incentives, but suddenly, they might be gone. So we have to work on a solid basis.

For the upcoming weeks, we are going to analyze how the discussions are going to take place, based on the initial proposition brought to the Congress yesterday, and we can just talk further about that in the near future.

**Ruan Argenton, XP Investimentos:**

Good morning. Thank you for taking the question. I have two questions. First, average ticket. But I would like to talk about the absorption rate, more prices, contracts. I would like to ask whether you have seen a need to reduce the speed of absorption, or do you think that the absorption rate is really stabilized?

Concerning asset recycling, I would like to understand more the logic about closing deals. In recent transactions, we have seen that sellers finance has been a way to really enable the operation. Have you seen any changes along these lines? Any differences in the potential negotiations we have been making? Any reduction of payment terms?

**Sérgio Fischer:**

Thank you for your questions. Let me start with asset recycling. We have seen an improvement, and the main purchasers are investment funds. They are the main purchasers. We have seen liquidity of the funds, many of them coming to the market to increase capital, and it reflects into better sales conditions to us. The specific sales last week were really important. There were sales finance to minimize tax rates, which is a variable to be taken into consideration. It's a better moment for all of us.

As the dividend yield of the funds is getting close to the interest rate, the industry will get more liquidity and there is going to be a shortage of assets. This is our impression, and then we will be able to have even better deals, better cap and better payment conditions. But because there is a discrepancy between dividend and yields of funds and the interest rate, we still have to adjust the sales finance to help acquire funds.

Concerning ticket, it's interesting what we have seen in the market. Delivering assets with 100% absorption is something unique, really, for LOG. This is due to the strategy of geographical diversification and the industry diversification that we have, with different modular properties, really to deliver the real estate and being leased, and we try to bring together a ticket improvement and better absorption.

We prefer 100% leased to avoid vacancy costs and additional costs after delivery of the real estate, and also bring prices up. We have been dealing with very positive average ticket, very positive numbers. Yields over 13%, as I told you before. This is not going to change. We have seen it happening throughout all deliveries of assets.

Another interesting piece of data, this is going to be a record year in terms of new businesses and new investments at LOG. We have the potential of delivering 500,000 m<sup>2</sup> of GLA throughout the year. 57, 1Q, and the balance of the GLA to be delivered is with a 45% prelease already. So very well preleased. Very strong data, very positive moment for the whole industry, always trying to increase prices, average ticket, at the same time matching with the absorption rate.

**Marcelo Motta, JPMorgan:**

Thank you. Good morning. I have two questions. Could you please remind us of what your agenda of receivables is? From the sales based on what you have sold, the 1.8, how much still will be coming into the cash on a quarterly basis, so that we can have some visibility on the expected CAPEX?

And the increase of expected revenue through the plan that you showed in the beginning of the presentation, could you please share with us the assumptions, price increase of GLA? So that we can understand how the average price will be growing yearly.

**Sérgio Fischer:**

Thank you, Motta. I am going to start with the second question first. The LOG 2 Million plan includes 22 areas with projects in all of them, 22 geographical areas. We want to have major diversification. There are 12 ongoing construction, things to be delivered in 2025, projects to be delivered in 2025, with tickets very close to what we have been delivering, R\$22, R\$24 per m<sup>2</sup>. We will see annual deliveries of 500,000 GLA and annual sales of about half of that to support the growth.

The net G&A, which will be very relevant in 2024, will see the Company's portfolio have a 20% increase net, maintaining the same balance and the same net debt because of the margins we have added to the operation. This is what we have predicted. Net growth of 200,000 m<sup>2</sup> GLA per year and stable net debt, and increase in revenue coming from net GLA.

Concerning receivables, I do not know top of my head. We have R\$600 million in receivables, all short term. concentrated close to 12 months, if I am not mistaken, and R\$500 million, which were added in April. In April, we received close to 60% start and the others will be accounted for in 24 months. But the Investor Relations team can share with you our schedule of receivables. We can share with you later.

**Elvis Credendio, BTG Pactual:**

Good morning. I have two questions. First, cost and yield on cost. We have shown the cost yield, which was flat comparing 2022 to 2023, but you have also been talking about ticket expansion. What do you expect? This cost evolution this year and the increase in average ticket, how do you anticipate yield on cost of the next sequence of projects?

Secondly, about the strategy of asset recycling, I understand that the Company wants to match the volume of asset recycling and the CAPEX of new development. You have been talking about the market, the market has been heating up, maybe there will be a shortage of assets. But what would be a trigger for you to recycle even more to divest more assets than you have? Maybe a compression of cap rate would be enough, so that you would return capital to shareholders? This is the question I had.

**Sérgio Fischer:**

Thank you. Concerning yield, I told you last year, we had a record year, 3.2%, yield on cost of 260,000 m<sup>2</sup> delivery. This year, we are going to deliver the double of that, and very close yield, it was 13 and it's going to be 12.9 approximately, because of these 2 things: the ticket is going up, we have been managing to do it, it is a reality, and it's a reality all over Brazil. We have been succeeding in doing it and the stability of the construction cost.

In the 2Q24, we are reaching over 40,000 m<sup>2</sup> of GLA being sold monthly, and very good stability in construction cost. We do not think this is going to change in the midterm. There is no pressure as we see it, there might be even a small improvement, and also a positive ticket. We think that there's a new deliveries of 500,000 m<sup>2</sup> to be delivered, and what's going to be delivered in 2025 will be in the yield over cost scenario of 13% and stability of construction costs.

Asset recycling. There are some variables really that make the decisions. First leverage, of course, we want to have resources. We want to be available to grab the opportunities and to grow further. But we also work with a scenario where we can increase our volumes than initially predicted because of the quality of the operation. This is what's going to determine it. There is a lot of liquidity in the industry, not only investment funds, but other investors.

We have been approached by them asking for sales of investments, and it may be translated into better transactions, better margins and better payment conditions. If there is a great opportunity, we can always increase the volume as initially predicted. This is not something that we have not considered.

**Jorel Guilloty, Goldman Sachs:**

Good morning. I have two questions. First, I would like to understand the assumptions for developing projects in PPI. I know the pipeline is now at R\$18 billion, 64% higher. But could you please tell us more about the assumptions, and how do you see the cap rate for these projects, or TIR? Just to have a better understanding about your pipeline.

Finally, gross absorption. We have seen that 8% of gross absorption came from e-commerce. Was it direct e-commerce? Is it related form marketplace, or companies that are exposed to physical retail and e-commerce? Just trying to understand how you have categorized all that understanding. Thank you.

**Sérgio Fischer:**

Thank you, Jorel. Let me start from the second question. Something interesting that we have been observing with the marketplace is that they really got very well organized during the pandemic to cover, especially São Paulo. All the main marketplaces got very organized, leasing sheds. We do not see that much of a change compared to what we had in the past.

But this is not the reality outside Rio and São Paulo. There is a lot of exposure in the Northeast, there is still major market there, not very well supported. So the demand we have seen from e-commerce has come from regions outside the Southeast of Brazil. Especially the Chinese have been doing business with us, Mercado Livre, and we can see they are getting organized all over Brazil to be close to consumption. This is something that has not changed. We can still perceive the demand of e-commerce, and we are supporting them.

Concerning the PPI, the assumptions for our evolution, this is normally done by an external consultant. They work it independently, and our balance is about 8% cap. And this is what we have managed to have in terms of transactions of sales of assets in the past 12 months. The R\$1.7 billion was sold at NAV. Some are a little above, others below it, but always very close to NAV, which really makes us very comfortable. The Company has an NAV of R\$36, R\$37 per share, and we have been able to recycle at NAV level. So a very positive movement, considering the discount and what we have been doing.

**Jorel Guilloty:**

Developed projects and projects in construction, is there going to be a difference there?

**Sérgio Fischer:**

Yes, a difference in terms of discount rate, as we absorb more. Stabilized, we have a very good average ticket, and the project, which is under construction and still not for pre-lease, they estimate an average ticket and absorption curves which are locally more conservative than what we have been using.

When we have a project and it's delivered at 100% lease, there is an additional gain. A gain of fair value, as we deliver above what was initially predicted.

**Antonio Castrucci, Santander:**

Good morning. Thank you for taking my questions. I have two quick questions. First, I want to understand about the liability management. After the efforts to reduce net debt, do you have any prepayment or debt refinance that we would expect in the short term?

And secondly, changing gears, about BTS. Anything in terms of BTS and the LOG Plan 2.0? And how do you expect to see profitability here compared to retail projects?

**Sérgio Fischer:**

I am going to start talking about BTS, and then hand it over to André. We have not expected to have any investments in BTS. What we have mapped and modeled was percent of the speculative sheds, as we call them, very successfully.

It does not mean that we are not going to do it. We are constantly approached by our own clients asking to have one or the other BTS. We have been considering that. There are some ongoing, and the decision to do it or not is the quality on return. If it's not close to the 13% yield on cost that we have had, we are not going to do it. What's going to decide it, it's really the quality of the return.

André, please, about the debt.

**André Vitória:**

Antonio, concerning the debt, there are important data to be shared. End of March, the cost of debt, CDI+1.8%, but we have the LTV of 16.4%. We are really very comfortable with our position of debt. Concerning liability management, what we have been observing with our financial planning team and the financial organizations.

The understanding we have is more favorable than CDI+1.8%. We have CDI below 1, and this is why we always analyze and consider whether prepayment would be worth to reduce the cost of debt, and also have an extension of terms.

For the next quarters, we will probably have something more feasible, because the macro scenario has led to reduced interest rate and it impacts positively our position. But we do not have anything defined yet. These are considerations to be done in details, but it's a positive scenario to take us to a reduction of rates, especially during the next 2 quarters.

**Operator:**

Our Q&A session is closed now. Let me hand it over to Mr. Fischer so that he can draw his final conclusions.

**Sérgio Fischer:**

Thank you all very much for your participation. I would like to close by giving you a very positive message. It's going to be a great year, record year. We have been developing a lot. Quality of development, 500,000 m<sup>2</sup> of GLA within 1 year.

Very good pre-lease levels and excellent yields. In the 2Q, we are going to have relevant deliveries even higher than what we expected in the 1Q. Very good lease rates, and this is going to impact our net revenues in the near future. Very optimistic with the year and with our capacity to keep on having asset recycling, especially with the spreads we have been delivering.

That's it. Thank you all very much. See you next time.

**Operator:**

The conference call of LOG is finished now. If you have a question, please submit your questions to the Investor Relations team with email, [ri@logcp.com.br](mailto:ri@logcp.com.br). Thank you all very much for your participation. Have a great day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the Company hosting this event, which was transcribed by MZ. Please, refer to the Company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"