Vesta Industrial Real Estate

First Quarter 2016 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

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Alex Ferraz, *Itaú BBA*

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PRESENTATION

Operator:

Good morning. My name is Manny and I will be your conference Operator today. At this time I would like to welcome everyone to Vesta's First Quarter 2016 Earnings Conference Call. Vesta issued its quarterly report on Wednesday, April 27, 2016. If you did not receive a copy via e-mail, please do not hesitate to contact the Company at +52-55-5950-0070.

Before we begin the call today, I would like to remind you that forward-looking statements made during today's conference call do not account for future economic circumstances, industry conditions, Company performance, and financial results. These statements are subject to a number of risks and uncertainties. All figures included herein were prepared in accordance with IFRS and are stated in nominal US Dollars, unless otherwise noted.

Joining us today from Vesta in Mexico City is Lorenzo Berho, the Chief Executive Officer; Juan Sottil, the Chief Financial Officer; and Iga Wolska, the Investor Relations Officer. I will now turn the call over to Mr. Berho. Sir, please begin.

Lorenzo Berho Corona:

Thank you, Manny, and good morning everyone. Thank you for participating in today's conference call.

Our positive first quarter results position Vesta for another year of growth and market outperformance. We have set the stage for a significant improvement on our debt position and the most competitive cost of debt in the industry once the recent loan agreements have been executed. This strong balance sheet will support our future growth.

In the first quarter, our development pipeline included the recent acquisition in Tijuana, which will allow us to reach over 3 million square feet of growth for the second year in a row. This growth strategy is supported by the strongest deal pipeline that we have managed since the Company went public. Our 18-year unmatched track record of growth through development affirms Vesta as the leading industrial real estate developer with the most modern portfolio in Mexico.

During the quarter, our leasing activity totaled 1.3 million square feet. Vesta signed leases totaling almost a million square feet with multinational companies in various industries. The Company renewed leases on approximately 400,000 square feet of its Property portfolio.

As of first quarter 2016, Vesta has renewed 74% of leases set to expire in 2016, marking a first quarter record. This result reflects the proactive, client-centric approach of our new Asset Management Team. All contracts renewed are at prevailing rates.

The 40 basis point increase in Vesta's Same-Store portfolio occupancy rate to 95.9% underscores the strength of our rental income. Total portfolio occupancy improved 78 basis points to 87.5% and our stabilized portfolio occupancy rate was among the highest in the sector, rising 200 basis points to 93.7% year-over-year.

We continue to sign dollar leases, hence the proportion of revenue derived in US dollars increased to 82.6% from 75.8% a year earlier. This trend will limit our exposure to currency movements.

During the quarter, we delivered two build-to-suit buildings ahead of schedule, Oxxo in Veracruz and Gestamp in Vesta Park Toluca II. We also acquired industrial property in Tijuana, which is occupied by Balboa Water Group, a spa and bath parts maker.

I am very pleased to report that revenue from rental income increased by 11.7%, while total revenue grew by 7.2% to US$ 21.06 million. During the quarter, funds from operations increased 37.4% to US$10.82 million. Let me emphasize that despite the equity offering in the year-ago quarter, FFO per share grew by almost 30%.

We are committed to maintaining our reputation through customer-centric innovation and the disciplined execution of our Vesta Vision 20/20 strategic growth plan.

Thank you for your continued support. I will now hand the call over to our CFO, Juan Sottil, for a discussion of our first quarter results.

Juan Sottil Achutegui:

Thank you, Lorenzo. Good morning, everyone. Thank you for joining us today.

We had a solid start to the year, as the quality of Vesta's Industrial portfolio generated positive financial and operating results. Our recent refinancing means our balance sheet is strengthened to support future growth, with a lower cost of debt and longer maturity schedule. These factors, along with supportive industry fundamentals, place Vesta in a strong position for 2016.

We continue to expand our portfolio, focused on key trade, logistics, and manufacturing corridors throughout the country. Our clients seek state-of-the-art industrial buildings tailored to their needs, and Vesta has a reputation for consistent quality.

During the quarter, Vesta's portfolio grew to 20.6 million square feet. This reflected the completion of a new build-to-suit build ahead of schedule and the acquisition of an industrial property in Tijuana.

Occupancy trends improved throughout our portfolio, reflecting healthy demand in our key markets. The first quarter occupancy rate increased both on a stabilized and same-store basis year-over-year, while the vacancy rate declined to 12.5%.

During the period, Vesta signed leases totaling nearly 903,000 square feet with global companies in various industries. We have almost 1.7 million square feet in buildings under construction, which we expect to contribute around US$ 10.4 million to rental revenue once projects have been stabilized.

Turning to our key financial metrics, our revenue grew 7.2% to US$21.06 million in the first quarter of this year. As Lorenzo mentioned, we pay certain expenses at no markup on behalf of our clients. Upon reimbursement, these are recognized as other revenues. Excluding such other revenues, our first quarter revenues from rent would have increased 11.7%. We have good revenue visibility for the year ahead, having renewed most leases set to expire in 2016 and we have a solid pipeline in place.

Operating costs as a share of total rental income fell 10 basis points on a year-on-year, as rental income continues to grow at a faster rate.

Net operating income rose 7.3% to US$20.4 million, helped by leasing demand and ongoing cost discipline. Our NOI margin rose 10 basis points to 96.9% as Vesta leveraged its efficient operating model.

EBITDA grew 7.4% to US$17.9 million, while EBITDA margin was broadly flat, up 10 basis points on a year-over-year to 84.9%. Due mainly to a gain on the revaluation of investment property, total comprehensive income for the first quarter was US$8.3 million versus a loss of US$11.3 million a year earlier on the year before. Funds from operations rose more 37% to US$10.8 million.

In terms of our balance sheet, cash and cash equivalents were US$20.7 million, down about US$7 million from the prior quarter, as we develop our Industrial Property portfolio. Operating activities generated cash flow of US$17.28 million.

Investment activities were mainly focused on payments for works in progress on the construction of new buildings in Bajío, Ciudad Juarez, Tijuana and Central Mexico. Our investments for the quarter were US$30.7 million.

Regarding our competitive cost of debt, which Lorenzo referred to, this month we signed agreements totaling US$400 million. Importantly, once these agreements are finalized—legal documentation and so forth—they could cut our cost of debt by nearly 300 basis points and extend its average term to nearly six years.

The components of our new financing agreements include two commitment letters, including one for a US$150 million unsecured five-year term loan, and another for a US$100 million unsecured three-year revolving credit facility. The third one is a US$150 million letter of intent for a secured 10-year financing with Met Life. These agreements are subject to completion of legal documentation. Our new financing and our robust cash balance reflect Vesta's strong capital management, with a balance sheet that supports our strategy for ambitious, long-term growth.

We ended the quarter with an overall balance of debt of US$342.4 million. Of this, 86.3% is related to short term liabilities and 13.7% represents the long-term debt. All debt remains denominated in US dollars and we have the financial resources to successfully address our year's maturities.

For the remainder of 2016, we continue to forecast between 13% and 14% growth in rental revenues, with net operating income margin above 95% and an EBITDA margin above 83%. This assumes broadly stable exchange rates, interest rates and inflation, supportive conditions in the Mexican real estate industries, and continued expansion in the US/Mexican economies.

We look to the year ahead with confidence that Vesta will continue to successfully execute its Vision 20/20 growth strategy. As Mexico's leading industrial real estate company, we have a strong balance sheet, state-of-the-art facilities, and are dedicated to producing sustainable long-term growth for all our Stakeholders.

Thank you. I will open the floor for questions.

Operator:

Thank you. We'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Javier Gayol of GBM. Please go ahead.

Javier Gayol:

Hi, Lorenzo and Juan. Thank you for the call. I have two questions. The first one would be related to the Bajío area where we've seen that occupancies are improving in that area, but also what we're seeing is that the investments that you guys are doing in your pipelines have been reducing in speed in that area specifically. So, I just want to understand if this is strategy for you guys in that area and how are you looking at the development of industrial activity. Also, another question is related to the acquisition of the Tijuana property. Could you give us a little bit more color on the rationality acquisition? Was it only an acquisition opportunity that you guys looked at and took advantage of, or is this part of a more strategic long-term plan?

Lorenzo Berho Corona:

Okay. Well, Javier, thank you very much for being here and thank you very much for your interest. Let me answer your questions. The first one is, the Bajío. We see the Bajío with an outstanding potential and outstanding pipeline. We're really very active in all of Bajío. According to a year planning investment activity, basically, it all depends on either you decide to invest in as investor, which is more the decision towards us, on our side; or if it's a build-to-suit. Probably as you know, build-to-suits take time, take time to mature, take time to negotiate, take time to negotiate and the time (inaudible) specifications, and that is what we are going through in the Bajío and there's some news that whenever they are ready, we will announce it related with build-to-suits in Bajío, important, build-to-suits in the Bajío.

So, I'm not worried about it. On the contrary I'm seeing very good—a very strong pipeline and our team, every Monday that we have meetings, they help us see the stage and the progress of all of those.

Now, on the other hand, related with the investor buildings, not only the Bajío but in all regions, we are always very disciplined and very responsible, and we have to have the same kind of speed in leasing, as you can see the results we had this quarter and last quarter, and we have to match that with the speed of development. We do that in a very responsible way. So I'm very happy about the Bajío and I'm very positive about the speed of investments, in the Bajío specifically, this year.

On the other hand, in Tijuana, as we have talked in the past, Vesta is a development company. Most of our growth comes from just developing new properties, either build-to-suits, park-to-suits, or inventory buildings, but we have never been close that whenever we find a good opportunity with great buildings and great returns, then we capture that and negotiate, and just as we did in the Thompson deal that we announced last months, and also this one in Tijuana. In Tijuana, this property specifically is a great property. It's very well maintained. There's a company that has to leave to the Bahia region. There's a new company coming in that we have in the process to get in and that's when we acquired a property. Having a 10.5 cap rate in that, that shows that we do not buy just because we want to grow; we do accretive acquisitions in which we can add value and the standards match the kind of buildings that we have.

Javier Gayol:

Thank you. Thank you, Lorenzo, for your input. That's very helpful.

Lorenzo Berho Corona:

Thank you, Javier.

Operator:

Thank you. The next question is from Alex Ferraz of Itaú. Please go ahead.

Alex Ferraz:

Hi, guys. Thanks for the presentation. I have just some questions. As per the refinancing program, what can I expect in terms of acquisitions? Moreover, can you comment on the overall opportunity that is in the market?

Juan Sottil Achutegui:

Yes. I would be happy to answer these questions. As we announced, we have basically have sufficient financial flexibility that we will finalize to get in the next month-and-a-half, after which we will be successfully retain our obligations to Blackstone, to the Blackstone Group, which were the acquirers of the deal (phon) that we put in place in 2011. So, after the rollover of the debt, we will still have substantial amount of funds. By the end of the second quarter I would expect them to be somewhere around $180 million, somewhere around there, and with that we will continue our growth back.

We do not acquire much portfolios, because as Lorenzo just mentioned, we are very stringent on the returns of our investments and the quality of the buildings and the tenants. Therefore, even though we have participated in most bidding processes, we end up offering what represents to us as a good opportunity, but what for the seller is not the most aggressive price. So we do opportunistic acquisitions, as Lorenzo pointed out. However, we have a very strong pipeline. Last year we grew 3 million square feet and we expect this year to match that growth rate of development by developing 3 million square feet, and we are very confident that we will reach that pace of growth.

Alex Ferraz:

Okay. Thank you.

Operator:

Thank you. The next question is from Alan Macias of Merrill Lynch. Please go ahead.

Alan Macias:

Hi. Good morning, everyone, and thank you for the call. Just I guess two questions. The first one is if you can give us an update on if clients or potential clients have been pushing for leases in pesos, given the strong dollar. Also, what is your ideal mixture in your portfolio in terms of US dollar rents given that your loans are in US dollars? What percentage would be the maximum in pesos? Thank you.

Lorenzo Berho Corona:

Okay. Thank you, Alan. Thank you very much for being with us today and let me tell you; I think that Vesta is in a—the niche of clients that Vesta has targeted have to do, as you probably know, much more with manufacturing export companies, multinationals that are based in Mexico in order to export. So those companies have the incoming dollars and those represent close to 70% of our portfolio. So, in that regard, we have not experienced any pressure for them. They match part of our cost, but their revenue comes in dollars. But, of course, we also have some logistics and some logistics maybe in Toluca, that's an area that whenever the maturity of the lease ends, that's when we probably could have some pressure. But I can tell you that today we have not had any pressure of any transition from dollar to pesos, even with some clients that they do sell for the domestic market.

As a percentage that we feel comfortable with, I would say that at least 80% in dollars is something that our Board, our Investment Committee, and the Management Team feels very comfortable, and that's very reachable according the understandings, the important markets in which we participate.

Juan Sottil Achutegui:

Alan, just—good morning—just to clarify Vesta's foreign exchange position, if we—over last year revenues, because it's an easy way to look at it, we basically, roughly speaking, we sold—we had revenues of $80 million. Around 80% of those were dollar denominated. Therefore we had a $64 million, real dollars coming into our cash accounts. Operating payments in dollars are around $30 million, $32 million. So we have a substantial loan dollar position year-over-year.

More than running an exchange rate position, what we want to achieve is stability of income. Therefore, we are very keen in looking for dollar denominated rent. As we don't see we do that, our revenue line should be a function of the exchange rate to inflation. So, we are very careful on peso leases and they have to meet certain additional hurdles for us to enter into them. Just to underline, we don't have any substantial pressure from our clients to switch to pesos, and that's where we are.

Alan Macias:

Thank you. Just thinking of going forward, would you prefer to lower your exposure to Mexico peso rents, just to lower your exposure to rents in pesos and therefore have that limited exposure in your revenues in dollar terms? Would that be a strategy you're looking at or you feel comfortable in maintaining the current exposure?

Lorenzo Berho Corona:

So I really think, Alan, that our strategy focus in understanding the kind of clients, multinational clients, export-oriented companies that we are targeting in most parts of the country, I think that it's very clear that we are targeting and we feel comfortable to have this 80% of revenues in dollars.

Now, having said that, we are also very positive about the peso, and the domestic market is also getting stronger. The middle classes are rising and there will be needs and there will be a good opportunity of great companies that we also want to target, even if they have to be in pesos. But this percent, this balance, is something that we feel perfect in terms of hedge and in terms of the quality companies in which we want to participate in the market.

Alan Macias:

Thank you. Great.

Lorenzo Berho Corona:

You're welcome.

Operator:

Thank you. The next question is from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga:

Thank you. Hello, Vesta Team. Congrats for the results. My question is regarding more generally about the industry of the OEM investments that are still in the pipeline in Mexico. Do you expect that some of them will need a suppliers park and can you give us more color on in which cases that is convenient for the OEM, so that we can have some kind of view on whether Vesta could have such kind of opportunities in the future? Thanks.

Lorenzo Berho Corona:

Sure. Thank you. Thank you very much, Vanessa, for being here today. Well, I think that your question is crucial in terms of understanding the big opportunity that the OEMs represent for Mexico, and not only the OEMs, also their supplier base. Well, first of all, I have to tell you that between January and February we felt some slowdown in some of the nomination process. Some of them could be related with the global volatility, and some people just took a little bit longer. We know that the Audi plant in Puebla or San José Chiapas, delayed the whole production for six months to start in a full production. So, that probably was one of the aspects of some delays.

Now, having said that, what we have seen is very important, very important pipeline, and we are targeting that, our team—four or five people of our team were in Germany at an event a few weeks ago related with the next nominations with Daimler, for example, in Aguascalientes. They want us to be close to this process since the beginning and since Germany. So that’s how according to their decisions, we can be close to them. That's why, also, we have also been already acquiring more land in Aguascalientes, because we know that many of these companies will need to be there just at the time that Daimler starts formally all these nominations. So we're happy to do that.

Then the Bajío, I would say that it's a good combination of a couple of things. Some of them, very close to the park for the Tier 1s and sometimes the Bajío has—it's so well communicated and so close from all these plants that have established their operations there that for some companies it's better not to be in a specific park adjacent to the OEM, but they want to be in a strategic location to be able to supply two or three of these plants. That's when we—this is why our offer of properties has to do more with different parks located in Guanajuato, in the Puerto Interior, but we also have San Miguel de Allende, which is a niche that nobody had really explored before. Then we have a park in Querétaro. We're exploring another opportunity also in Querétaro, which is still an important potential for growth.

So I would say definitely, the automakers, and especially the suppliers, are going to be a key part for us going forward. It's an important part of our Vesta Vision 20/20 plan and what I'm seeing is a solid pipeline, depending, of course, on the timing of the nominations and some build-to-suits that they require, because they are looking to stay in the long run.

Vanessa Quiroga:

Okay, Lorenzo; thank you very much.

Lorenzo Berho Corona:

Thank you, Vanessa.

Operator:

Thank you. The next question is from Ivan Enriquez of HSBC. Please go ahead.

Ivan Enriquez:

Hello, Lorenzo, Juan, and Iga. Congratulations on the results and thank you for the call. My first question is regarding the trend we have served in acquisitions. I mean, you just talked a lot on this call on that, but I would like to know to what extent would you be relying on acquisitions, or if you see potential JVs to achieve your 20/20 Vision going forward in terms of the plans that you have.

The second question would be regarding management changes. We've seen in this quarter the departure of your Chief Development Officer and Chief Investment Officer for personal reasons. It seems that you have people, but it's going to—to keep (phon) them. But in the past we saw the departure of your Commercial and Communications Director. I just want to hear from you if there is some sort of, let's say, Senior Management internal restructure or something like that, and what do you think about your Management Team in the future because these people I think would you, in the place that you are—or helped you get the place that you have now in the market. Thank you.

Lorenzo Berho Corona:

Thank you. Thank you, Ivan. Thank you very much for your question. Well, first of all, talking about acquisitions, well, basically our plan, our Vesta Vision for 20/20 plan is based only on development. So when we have—this is, as you probably remember, we analyzed the infrastructure plan and vision-by-vision and industry-by-industry the potential growth. So, we love to have new business. We have the most modern portfolio in Mexico because we develop, so we—and we have the relations basically since day one with the tenants, which is something that is very variable for us.

So our plan is to keep going on development. We are a developing company. But we also have the acquisition skills. Only, as Juan was mentioning before, only properties that are in the regions in which we operate that we can have some synchrony and some synergy and we can service them well, or especially with some of our clients, or we can add value. But the properties are good quality property, and also the returns are just the same as if we were developing. That's the only case in which we would look at acquisitions. But we will not be doing this among portfolios with 7-ish cap rates. So that's pretty much on the acquisition side.

On the Management side, well, just as we do always, whenever we have some changes we just let all our Investors know as soon as we can. But, no; these changes have to do with personal decisions that came to us and—but it's more important is that, for example, in the case of development, we have developed, we have an internal promotion that we are doing with somebody that has been 10 years within the Company, move ahead. So it's a very natural step up, which we look forward that several people in our Company and we open opportunities for them to grow up within the Company, and that's the case of development.

In the case of the CIO, he had personal family decision that needs to go to Germany. The only thing I can tell you, that even though this has been recent, it is interesting for me to see that the credibility that the Company has built has been really able to have people very interested in joining Vesta. That's why I'm very confident that as we have done in the past, when these things happen, all the companies and all the people, we are all dynamic, we're not static, and I'm pretty sure that we will have find the right talent to replace and keep growing the Company according to our plans.

Ivan Enriquez:

Okay. Thanks so much, Lorenzo. Fantastic answers. Thanks, guys.

Lorenzo Berho Corona:

Thank you very much, Ivan. Nice talking to you.

Operator:

Thank you. The next question is from Francisco Suárez of Scotiabank. Please go ahead.

Francisco Suárez:

Hi. Thank you. Good morning. Thank you for the call. The questions that I have is: one, can you expand a little bit on the dynamics between supply and demand of new properties, and if that may create incentives enough for you to acquire more properties relevant then to develop speculative properties? In other words, what are the trends that you may see? We are worried that that might be some cap compression in developing on new properties that risk wise may not make sense to develop those. If you can expand a little bit on that.

Secondly, a follow-up to Ivan's question on Management changes, because you already created a nice incentive package to retain your talent, and as Ivan was mentioning, well, we saw major moves have been placed in Vesta. So the question here is: what could be enhanced in Vesta in order to retain a majority talent, and perhaps more importantly, if these changes might or might not affect your overall discipline that we have seen over these several years in Vesta in terms of having clear eligibility criteria, so what to do and what not to do in your overall business expansion? Thank you.

Juan Sottil Achutegui:

Thank you for the question, Francisco. Let me try to address both of them. The first thing, well, you know this from a long time. Vesta, we're keen on developing properties. You mentioned risk. We actually see more risk in acquisition of large portfolios. We don't control the client. You don't control the term of the leases. You don't control the locations necessarily. It's kind of mixed and good properties, bad properties, wrong maturity schedule, in-place rents all over the place. So acquisitions of portfolios are risky propositions.

(Inaudible) development growth is what we've seen add more value. We control everything. We control line credit, which is of the utmost important; we control the maturity schedule of the new lease. We really favor long-term leases. They provide stability to the Company and to our Investors and Debtholders. So we really perceive acquisitions as a risky growth vehicle. We're not geared towards it.

Now, if a cherry comes along, we're going to grab it, and we will continue to do that. All the cherries that you can bring to us, we will certainly eat them and enjoy them. So, that's what we do.

Now, Management, look, at the end of the day, let's realize what Lorenzo did with Vesta. Our entrepreneurial origins are that: Lorenzo gathered a group of young entrepreneurs to set up a very successful Company, and like any entrepreneur company, people accomplish cycles. The people that joined Lorenzo have had a very successful professional career, and sometimes they see the future different and they may begin to seek some personal interest as very important. Cycles happen, but more important, I think that skill of Lorenzo was to transform a very entrepreneurial organization with 25 people when I joined six years ago, to a Company of close to 60 people in just 5.5 years, no, six years since I joined.

But what we have today is a Company that has a very structured managerial depth. We have tried to keep entrepreneurial experience. We tried to give a lot of latitude to all of the employees, but let's acknowledge that some of our original founders may seek different personal goals. I mean, and that's what you see on the three cases that you referred to, right. Our CIO is married to a German person and she has certain interest in going back to Germany. I mean, and they have the financial flexibility to accomplish that. Why not? And so and so forth.

The important thing is that we have transformed the Company from 25 people in a young entrepreneurial organization to an enterprise of more than 60 people, giving service to more than 110 clients all over the country, and we have the management depth to absorb these changes. We're very happy to see that when you approach the market to seek out the skills we need in all aspects of the Company, people want to join us because this is a good Company to be in and it's a good Company to grow forward, and that would be the extent of my comment.

Francisco Suárez:

Okay. Great answers as always. Thank you.

Lorenzo Berho Corona:

Thank you.

Operator:

Thank you. As a reminder, everyone, it is star, one if you would like to ask a question. Our next question is from Eugenio Saldana of GBM. Please go ahead.

Eugenio Saldana:

Hi. Good morning, Juan, Iga, Lorenzo. Congrats on your results. I have two questions. I mean, the first one is: could you give us some color regarding the increase in maintenance since this quarter? I mean, is there some seasonality or one-offs or something like that? Additionally, I want to ask you about the ECP and how much of it was over this year? Please correct me if I'm wrong, but I think it is—I mean, it's measured each and every January, correct? Okay. Thank you. That's all.

Juan Sottil Achutegui:

Let me address the questions. In terms of maintenance, well, we have a very strong maintenance program. On this particular year we are beginning a cycle of maintenance for our properties that are a little bit older than six or seven years, and that, I believe, the increase you see. I don't think this a structural trend that we will see in the portfolio. I think that it's really—we took advantage of the dry season to go to our oldest facilities, which are not a lot. As Lorenzo keeps pointing out every time that he speaks to me and to you, we have the most modern portfolio. But we do have to take a look at our oldest facilities, and we just took advantage of the dry season of the year to step up on that regard.

But I don't see this as a trend. That maintenance is going to continue to grow for the future. Our maintenance expense is around $3 million per year. That should be a nice round figure and I can give you more color later on if you want on how we approach that on a cost per square feet on our entire portfolio.

But your second question, can you repeat it to me please?

Eugenio Saldana:

Yes. The Employee Compensation Program, I mean, that I…

Juan Sottil Achutegui:

Yes. Yes. Let me go into that. Look, the Employee Compensation Program that we put in place for top Management—let me start from the beginning. Every employee in Vesta is eligible to receive a bonus. Bonuses are really for extraordinary work, going beyond our own job descriptions, and all of us, from the receptionist to Lorenzo, are entitled to a bonus. But Management, on top of that, has an additional incentive. The incentive is our Retention program that implies aligning the interests of the top Management with the Shareholders, and that was the key driver for what we did.

That incentive program is non-cash-oriented. It's really—we're going to distribute shares that have already been approved in our latest secondary offering, and we have to earn them. We decided to earn them, if and only if, the Investors make money on Vesta. On the first year of that plan, Vesta did not meet hurdle rates that we hoped to give our Investors, and therefore, top Management were not eligible for that bonus, and that's what happened last year.

However, if you review last year's financial statement, you will see a bonus provision. That is because according to IFRS, regardless of the bonus amount, you have to provision the expected cost of the bonus program, regardless of the actual payment, in this case in shares to the employees. That's what you see in the balance sheet of last year and that's what you see on the balance sheet of the first quarter of this year. However, no dilution, no actual dilution has taken place to the Investors because we have not earned the shares.

We are very hopeful that our efforts to restructure continue to meet our growth goals of this year will be recognized by the market, and hopefully this year we will have a sizeable long-term bonus and therefore our top Management will be accruing some actual shares for our long-term savings. But that's the essence of the plan.

So, to summarize, align the interest to our investors; give them return; and then pay the top Management with some long-term compensation, in that order.

Eugenio Saldana:

Thank you. That was very helpful, Juan.

Juan Sottil Achutegui:

Thank you, Eugenio.

Lorenzo Berho Corona:

Thank you. Thank you very much, Manny. I just want to add also that very soon we will give you the name of the person that will replace the CIO. But if there is no more further questions at this time, I would like to thank you for participating in Vesta's first quarter 2016 conference call. We look forward to speaking with you again when we release our second quarter 2016 results. Of course, if you have any questions in the meantime, please do not hesitate to contact our Investor Relations department. Thank you very much and have a good day.

Operator:

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.

Lorenzo Berho Corona:

Thank you very much.