

FIBRA Prologis

Moderator: John Ginochio
February 10, 2015
11:00 a.m. ET

Operator: Good morning. My name is Melissa. And I will be your conference operator today.

At this time, I would like to welcome everyone to the FIBRA Prologis Fourth Quarter Earnings Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question at this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Thank you. Mr. John Ginochio, you may begin your conference.

John Ginochio: Thank you, Melissa and good morning, everyone. Thank you for joining us for our fourth quarter 2014 earnings conference call.

Today, we will hear from Luis Gutierrez, our CEO who will discuss our strategy and market conditions, and from Jorge Girault, our VP of Finance who will review results and guidance. Also joining us today is Hector Ibarzabal, our Country Manager.

Before we begin our prepared remarks, I would like to remind everyone that all the information presented in this conference call is proprietary and all rights are reserved. The information has been prepared solely for information purposes and is not a solicitation of an offer to buy or sell any securities.

Forward looking statements during this call are subject to a number of risks and uncertainties.

Our actual results, performance, prospects or opportunities may differ materially from those expressed in or implied by the forward-looking statements. These forward-looking statements are current as of the date of this call. We take no obligation to publicly update or revise any forward-looking statements after the completion of this call whether as a result of new information, future events or otherwise except as required by law.

Additionally, during this call, we may refer to certain non-accounting financial measures. As is our practice, we had prepared supplementary materials that we may reference during the call as well. If you have not already done so, I would encourage you to visit our website at fibraprologis.com and download this material. With that, it is my pleasure to hand the call over to Luis.

Luis Gutierrez: Thank you, John. Good morning, everyone. Welcome to our fourth quarter earnings call for FIBRA Prologis. Our focus today is on real-time market conditions, operating results and opportunities for growth.

First, let me offer some observations on the market. The leading economic indicators that affect our business are strengthening across Mexico following improvement in the U.S. macroeconomic climate. Consumer confidence and retail sales increase steadily during the year, and industrial production improved.

These metrics translated into healthy operating conditions. In fact, they are the strongest since economic crisis.

We had 15 million square feet of new demand in our six markets, which represents a 25 percent increase over the prior year. Even with the new supply, demand is keeping the vacancy rate in our markets in check and holding at 7 percent.

Demand for space has returned to peak levels in Mexico City, our largest market. This came from logistics operators and consumer companies seeking

larger spaces as well as from expansions in E-commerce. Rents here will continue to grow due to the scarcity of available land suitable for our product.

As for manufacturing, we continue to see a strong interest among different geographies and industries from new companies entering the country and from plant expansions. It is important to know a lag in supply in the border markets and the increased build-to-suit activity in Monterrey, which enables us to continue growing rents in these markets.

Manufacturing exports are receiving added stimulus from lower oil prices and decline of the peso, which could indirectly benefit the Mexican economy due to an increase in private consumption in the United States and making goods manufactured in Mexico more competitive.

Looking ahead, we believe market conditions will continue to strengthen in 2015 with acceleration of GDP growth, a strong demand in our six markets and an attractive peso. We believe this momentum will result in market rent growth in 2015 leaving in-place rent below market and driving NOI higher.

Turning to our performance, at the outset of our IPO, we introduced an ambitious plan for growth. During this time, you watched us deliver and achieve record results in 2014.

Our results directly reflect our quality portfolio. We ended the quarter with operating portfolio occupancy of 96.3 percent, this outpaced the market by more than 300 basis points. Increases in net effective rent on rollovers were 13.4 percent. This performance translated into 5.5 percent cash same store NOI for the quarter over the prior year. These results speak volumes to our well-located assets, outstanding team and strong real estate fundamentals.

From a capital deployment perspective, we put our liquidity and exclusive acquisition pipeline from Prologis to work and acquired a significant portfolio of Class A facilities that was accretive and consistent with our growth strategy. We also began a development expansion using one of four available land sites and taking advantage of our position in Mexico City.

It is important to remember our business is largely U.S. dollar based and has seen very little impact from the peso fluctuations. In our view, the market has not priced in the combination of a strengthening U.S. dollar, our insulation to peso fluctuation and rising real estate values in our stock price. This is why we believe we are trading in a healthy discount to NAV and this makes our FIBRA one of the most compelling growth opportunities in the market.

As we look ahead to 2015, we remain focused on our long-term plan, which is based on two key elements:

Number one- internal growth. Current rents have substantial upside because they sit significantly below replacement-cost justified rents. This points to strong occupancy and substantial embedded earnings potential from harvesting the gap between in-place and market rents.

Number two- external growth. FIBRA Prologis has the opportunity to acquire more than 13.5 million square feet of new development over the next five years from our sponsor. This would increase our portfolio by approximately 40 percent in Mexico's most dynamic logistics markets.

In closing, we have an incredible team and a portfolio that is second to none in our industry all supported by our sponsor and best in class governance that puts the interest of our certificate holders first. I am proud of our performance and the fact that it builds on our team's 25 year track record of excellence in Mexico. With that, let me turn it over to Jorge who will walk us through the numbers.

Jorge Girault: Thank you, Luis. As a reminder, FIBRA Prologis began trading on the Mexican stock exchange on June 4, 2014. As such, the company does not have comparable results from prior quarters. The operational metrics included for the periods prior to the IPO reflects the performance of the properties prior to ownership by FIBRA Prologis, when the properties were managed by its sponsor.

Before I turn to the results of the quarter, I would like to spend a minute and discuss foreign currency. While we are a FIBRA and we report in pesos, our

functional currency is U.S. dollars. As a reminder, 84 percent of our leases and all our debt are denominated in U.S. dollars. This is important to note when looking at our fourth quarter supplemental, as the U.S. dollar amounts presented are translated from reported pesos at a period-end exchange rate of 14.7 pesos per dollar. To help you with your analysis, we added new disclosure to show U.S. dollar conversion at a constant peso exchange rate in our supplemental.

Now, on to our results. FFO was \$22.7 million or 4 cents per certificate in the fourth quarter and 8 cents since our IPO, in line with our guidance.

Turning to operations. Year-end occupancy for the operating portfolio was 96.3 percent, exceeding the upper end of our guidance range and up 100 basis points from last quarter. Year-over-year occupancy increased 270 basis points. Our outperformance demonstrates increased market demand particularly in our border markets. Our customer retention was over 90 percent.

Net effective rents on leases signed during the quarter increased 13.4 percent from prior in-place rents. The fourth quarter marked the seventh consecutive quarter of positive net effective rent change. These increases are consistent with our strategy of pushing rents in our expiring spaces.

Cash same store NOI increased 5.5 percent for the quarter when compared to the same period last year. This performance is driven by our higher average occupancy, the positive net effective rent change, as well as lower bad debt expense.

Talking about turnover costs, this was \$2.22 per square foot for the quarter, in-line with the total value of the leases signed. It is important to note, total CAPEX spent in the quarter was a direct result of our leasing outperformance, which was a positive surprise. Effectively, we made investments during the quarter in exchange for future revenues.

G&A, which is comprised of asset management and third party professional fees, was \$4.1 million for the quarter, ending the year at the lower end of our guidance.

Looking to valuations, based on independent third party appraisals, our initial portfolio increased by approximately 2.5 percent quarter over quarter. For acquisitions, we grew the asset base by acquiring a 1.6 million square foot portfolio of Class-A product for \$110 million.

Now, let me switch gears to our capital structure. In terms of debt, we do not have any significant maturities until December 2016. At year-end, our loan to value was 26 percent, giving us additional borrowing capacity. In terms of our debt covenants, we are well within compliance with all our credit agreements and metrics imposed by applicable local regulations. We have approximately \$400 million of liquidity including our undrawn revolving facility, the expected value added tax reimbursement from the initial portfolio acquisition and the \$100 million dollar accordion feature on our existing revolving facility.

Let me turn to 2015 guidance. We are expecting our year-end operating portfolio occupancy to range between 95.25 and 96.25 percent. We expect average occupancy to be approximately 100 basis points higher in 2015 compared to last year.

With higher expected average occupancy and continued strong rent change on rollover, we expect cash same store NOI growth to range between 4.5 and 5.5 percent for the year.

We expect G&A for 2015 to range between \$17 and \$19 million, excluding any potential incentive fee.

For acquisitions, FIBRA Prologis has the right to a first refusal on a 3.0 million square foot pipeline valued at \$200 million and currently owned by Prologis. Additionally, we see opportunities for third party acquisitions. In 2015, we expect to acquire between \$130 and \$170 million from Prologis and third parties.

Putting this altogether, we expect 2015 FFO to range between \$0.16 and \$0.17 cents per certificate, excluding the potential impact of realized, noncash FX impact on the collection of our VAT receivable from IPO.

We continue to expect to pay out 95 percent of AFFO in distributions on an annual basis. We expect 2015 capital expenditures at a percentage of NOI to range approximately between 14 and 17 percent.

To sum up, we had an exceptional year. Looking ahead to 2015, we continue to see market fundamentals strengthening. With our financial strength and ample liquidity, our growth prospects are excellent, all of which are being well-executed by a strong, local and integrated team. With that, I will turn it over for the operator for Q&A. Thank you.

Operator: At this time, I would like to remind everyone in order to ask a question, press star, then the number one on your telephone keypad. We ask that you please limit yourself to one question. If you have additional questions, you may re-enter the queue.

Your first question is from the line of Alan Macias from Bank of America Merrill Lynch. Your line is open.

Alan Macias: Hi. Good morning, gentlemen. Thank you for the call.

Just if you can at this moment remind us if you have any guidance for this year and if you can give us some indication of the amortization in debt premium. Are you going to see these items still reported during this year? Thank you.

Jorge Girault: Thank you, Alan. This is Jorge.

Let me answer the second part of your question. In terms of the debt amortization that you referred to, this is consistent quarter to quarter and this amortization is a reflection of the mark to market on the debt at IPO and will last until the term of a loan. As you know, we don't have significant maturities this year. Our maturities come in 2016, '17 and '18. So it will come according to those dates, that debt premium amortization.

In terms of the guidance, I just went through guidance. Maybe, you were referring to FFO guidance in for 2015. What I said is that our FFO guidance will be between 16 and 17 cents per certificates excluding an impact from realized noncash FX impact on the collection of our VAT receivable. Thank you.

Operator: Your next question is from the line of Vanessa Quiroga from Credit Suisse. Your line is open.

Vanessa Quiroga: Thank you. In the main part of your conference call, you mentioned that you are exchanging current CAPEX for higher additional revenues. Can you provide more details on this strategy and whether that could lead to higher returns than originally expected? Thank you.

Jorge Girault: Hola, Vanessa. This is Jorge. Thank you for the question.

Let me just talk about total CAPEX and how that relates for FIBRA Prologis. Total CAPEX is a function of turnover cost and property improvements. In terms of the property improvements that you were referring to, these tend to move quarter to quarter in the FIBRA and we do invest in our properties in order to keep them at the highest quality in the market, which is as you can see are reflected in the high occupancy and retention that we had this quarter.

And our total property improvements will normalize in 2015. We don't expect to have these levels going forward. And for our total CAPEX comparison, which includes property improvements and turnover costs, you can see a range between 14 and 17 percent of our NOI. So at the end of the day, we're investing our properties, maintaining them at the high quality and having reflection in our occupancy and retention metrics.

Luis Gutierrez: Vanessa, in summary – this is Luis – we had a ...

Vanessa Quiroga: Hi Luis.

Luis Gutierrez: How are you? So we have had extraordinary activity in leasing. We are over 270 basis points from the beginning of the year and outpacing 100 basis points of the guidance.

This, you know, is reflected into a higher investment in our properties as we lease them. We believe this strength will normalize in 2015. But hitting our portfolio at the highest quality is one of our main priorities. And that's why we have, you know, high tenant retention and very good business with our repeated customers. Thank you, Vanessa.

Operator: Your next question is from the line of (Dan Magolis) from Citigroup. Your line is open.

(Dan Magolis): Morning, gentlemen. Congratulations on the results. Question about rents, your release cites an average rent to the portfolio at \$4.74 a square foot and leases expiring this year at about \$4.40. Wondering if you could talk a little bit about, you know, where you see sort of in place rents versus market, what type of, you know, I guess, leasing spreads we could see and again borrowing any sort of rents that may be help from some of the investments that you're making on the tenant improvements. Thanks.

Hector Ibarzabal: Thank you for your question. This is Hector. As you mention, we're seeing a frequent strength in most of our markets. Our current in place rent is 7.9 percent below markets on an average basis. Mexico City and Guadalajara are two markets that are getting close to peak. And we are seeing an important recovery of the rents on the border markets particularly Reynosa, Juarez and Tijuana that are experiencing a very strong demand, and supply lagging from the activity that was seen there.

Overall, putting all this together, we continue to see an important positive rent growth for 2015 and 2016 and that's what we're looking for, to have a stronger cash NOI going forward.

Operator: Your next question is from the line of (Andres Guliad) from (Brand). Your line is open.

(Andres Guliad): Yes. Good morning. It's kind of a follow up on the last question. The net effective rent increase this quarter seems higher than the previous quarters.

Could you give us a little bit more sense why was that is? Do you see more as a one off? Or do you see that more as a recurring trend? Thanks.

Hector Ibarzabal: Thank you for your question. This is Hector.

The net effective rent considers all the cash that is received during the life of the contract. So in those markets where we have some rent concessions, you'll know that effect is already incorporated there.

The fact that net effective rent is increasing, is due to the blend of new contracts and renewals that we had within the quarter. We have some markets from Mexico City, which is a market that reflects a more expensive rent. We have important activity in Mexico City during this quarter.

Going forward, we will see an increase in net effective rent because all of the markets are showing good activity particularly the border markets. I insist they're going to be showing an important recuperation due to the pipeline of potential transactions that we are seeing in the three of them.

Operator: Your next question is from the line of Eric Frankel from Green Street Advisors. Your line is open.

Eric Frankel: Thank you. I was hoping you could explain a relatively shorter lease term you signed, at least relative to what your parent Prologis – or what with your significant investor Prologis, usually does in their own portfolio.

Hector Ibarzabal: Hello, Eric. This is Hector. Thank you – thank you for your question.

The weighted average lease term that we have during the quarter was 32.9 months. And this compare to 35.9 months that we had done in the third quarter. As you know, this reflects that we have a higher blend of renewals than in new leases.

We do not see a change in trend in terms. We're expecting to keep on seeing for logistic space for renewals of around three years and on manufacturing

from three to five years. But the trend is not shrinking. It's in the positive direction.

Operator: Your next question is from the line of (Evan Enriquez) from HSBC. Your line is open.

(Evan Enriquez): Hello, Luis and Jorge. Thank you for the call and congratulations for the operating results.

Pretty quick questions here. Can you please share with us the twelve month NOI of the six properties that you acquired from your sponsor? What was the cap rate of those acquisitions? In my conversations with investors, they seem just concerned about this acquisition being expensive. That would be question number one.

And question number two, in terms of the AFFO, we saw a decrease of 5 percent. So I'm not sure if we should expect also a decrease in distribution per certificate in this quarter against the last quarter. That will be the next question.

Jorge Girault: OK. Hola, (Enriquez). And this is Jorge Girault.

I'm going to tackle the second part of your question regarding the distribution on the AFFO. Our total AFFO as you said for the quarter was a little bit lower, 5 percent lower the last quarter. And this is principally driven by our property improvements, which I explained were higher in this quarter. They tend to move quarter to quarter.

That said, we don't expect that this will continue, this level of property improvements. And you will see how they will move out in 2015 being in the range as I mentioned in my guidance, total CAPEX including property improvements of 14 and 17 percents of NOI. And that obviously includes turnover costs.

So that's the effect that we've had on our AFFO. In terms of the distributions, last quarter, we distributed 95 percent of approximately \$12.5 million that we

had in AFFO. This quarter, we're going to distribute 100 percent of our AFFO, which is approximately \$10.5 million.

Luis Gutierrez: From the first part of your question – and thank you for the question. This is Luis. That relates to the portfolio we acquired in the fourth quarter.

Just to, you know, remember some metrics, is 1.6 million square feet. These properties were located in Mexico City and Guadalajara – they are properties that were recently completed. So there is not a lot of history. So we don't have last 12 months' NOI because there had just been any cash flowing.

What I can tell you is that the cap rate in the properties is depending on the market and location, is between 6.9 percent and 7.8 percent.

Operator: Your next question is from the line of (Pablo Duarte) from (Actinises). Your line is open.

(Pablo Duarte): Hi. Thank you for the call. I just have a question. Regarding the adjusted AFFO margin this quarter was at 27.5 percent and for the year was 33 percent, and should we expect an improvement in this margin toward 40 percent?
Thanks.

Jorge Girault: This is Jorge. Thank you for your question. We will see a margin more in the 30 levels going forward in 2015 for AFFO.

Operator: Again, I would like to remind everyone in order to ask a question, press star, then the number one on your telephone keypad. Your next question is from Vanessa Quiroga from Credit Suisse. Your line is open.

Vanessa Quiroga: Thank you. Do you have guidance on the debt amortizations and other finance cost that you expect to pay down that would affect AFFO in 2015?
Thanks.

Jorge Girault: Thank you, Vanessa. You're referring to the amortization of debt premium, I suppose. Correct?

Well, the amortization of the premium will continue as I said, it is constant over the term of the debt. And it's going to be for a similar number going forward quarter to quarter.

So you can take the debt premium amortization that we have last quarter and this quarter, which are very similar, and you can use it until the maturity of our loans.

Operator: Your next question is from Eric Frankel from Green Street Advisors. Your line is open.

Eric Frankel: Yes. Thank you. I gathered from your call that you feel your stocks significantly undervalued and it trading well below NAV. Any thoughts if the investment market is improving rapidly and selling more properties in market you know? There may be some property to markets you don't want to be in long term.

Luis Gutierrez: Well, there's a lot of liquidity in the market, Eric. This is Luis. So the property values are going up. You see the spreads of cap rates in Mexico compared to the U.S., you see a very wide spread. So we see a trend of values coming down in Mexico, you know, maybe between 25 and 50 basis points over, you know, this year.

We feel comfortable with our portfolio. We do have some assets that we may eventually sell. Those assets are currently encumbered by some debt that has some high prepayment penalties and most likely, this year won't be a year we could dispose of them. But this will be something we would be having in our plans, once the debt starts to burn off.

Operator: And again, ladies and gentlemen, that is star, one on your telephone keypad to ask a question. Your next question is from (Evan Enriquez) from HSBC. Your line is open.

(Evan Enriquez): And thank you – thank you again, guys. Luis, can you just repeat that cap rate, it's between 6.9 percent and which other number, please?

And also the second question would be during your second quarter, you just said that you may acquire growth properties from your sponsor. So how many properties can we expect you to acquire from sponsor in this quarter and the next quarter? I mean, would you be acquiring the remaining eight properties that you announced in the second quarter of 2014? Thank you.

Luis Gutierrez: Thank you very much, (Evan). So let me start with the second part of your question. So we believe in the growth -- at a certain growth for FIBRA Prologis. And this will be mainly driven by third party acquisitions and internal acquisitions as you mentioned.

We have 1.7 million square feet of properties that will stabilize during 2015 out of a total of 3 million square feet of properties that we have in the pipeline from our sponsor Prologis. So this would be around \$130 million that we would be acquiring once those are appraised and authorized by then the independent members of our technical committee.

In addition, we believe we have a strong pipeline of third party acquisitions. Those are more difficult to predict but we will be announcing as they come.

I did not hear your question, the cap rates. If you can repeat it.

Operator: (Evan), if you could please press star, one.

Luis Gutierrez: The range of the cap rates on the first portfolio is between 6.9 and 7.8 percent.

So I want to thank everyone for your participation on this call. We are very excited about 2015. We believe the market has good momentum and we're very well positioned to take advantage of it.

So thank you. And we'll see you on our next call.

Operator: This concludes today's conference call. You may now disconnect.

END