

**FIBRA Prologis**

**Moderator: Luis Gutierrez**  
**April 24, 2015**  
**9:00 AM ET**

Operator: This is Conference #: 7239313.

Ladies and gentlemen, thank you for standing by, and welcome to the FIBRA Prologis 1<sup>st</sup> Quarter 2015 Earnings Conference Call.

All lines have been placed in a listen only mode. After the speakers remarks there will be a question and answer session. At that time more instructions will be given.

It is now my pleasure to turn the call over to Annette Fernandez of Investor Relations.

Please go ahead, madam.

Annette Fernandez: Thank you Maria, and good morning everyone.

Thank you for joining us for our 1<sup>st</sup> quarter 2015 Earnings Conference Call.

Today we will hear from Luis Gutierrez, our CEO, who will discuss our strategy and market conditions, Jorge Girault our VP of Finance, who will reveal 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 risk and uncertainties. Our actual results, performance, prospects, and opportunities may differ materially from those expressed in or implied by the forward looking statements. These forward looking statements are correct 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 accept as required by law.

Additionally, during this call we will refer to certain non-account and financial measures. As is our practice, we have prepared supplementary materials that we may refer to during the call, as well.

If you have not already done so, I will encourage you to visit our Web site at [fibraprologis.com](http://fibraprologis.com), and download this material.

With that it is my pleasure to hand the call over to Luis.

Luis Gutierrez: Thanks Annette, and good morning to all. We are off to a great start, and I am pleased with our performance. Our results continue to reflect the quality of our portfolio, and healthy operating conditions across our six markets.

Here are some highlights for the quarter:

We leased 3.6 million square feet; this is an outstanding accomplishment by operations team. This volume was roughly double the comparable quarter last year, and effectively resolves more than 50 percent of our lease expirations for 2015.

These efforts led to operating portfolio occupancy of 96.6 percent. This is up 30 basis points from the last quarter. Additionally, we outperformed the market by 460 basis points.

This quarter-over-quarter increase is notable as occupancy typically experiences a modest seasonal decline in the first quarter.

We continue to harvest the gap between current and market rents, as illustrated by an 8.9% increase in net effective rent on rollovers. This performance translated to the increase in cash same store NOI of 2.9 percent for the quarter, relative to the comparable period last year.

We achieved our results despite a weakening peso against the dollar, again, demonstrating the quality of our portfolio, and the expertise of our team. Our 85 percent U.S. dollar-denominated revenues provide a natural hedge against currency fluctuations.

On the capital side, our financial position was strengthened further, as last week with the early receipt of the full value-added tax receivable.

I'll now share a few observations on economic trends that affect our business:

Consumer confidence has improved steadily since reaching its lowest point last summer, leading to an increase in consumption. This trend has translated to more demand for our facilities, in particular infill properties adjacent to urban population centers.

While currency volatility and low oil prices pose overall concerns, certain sectors more closely tied to our business have benefitted from these cyclical changes:

Weakness in the peso has created near-term pricing advantages for Mexican exporters and has accelerated production in the auto sector; and

U.S. retail sales appear poised to accelerate, specifically in automotive, appliances and electronics, allowing Mexico to take advantage of the specialization that is required to produce these kinds of goods.

Some examples include Toyota and Ford, who announced recently plans to grow their Mexican platform, which will translate into demand for manufacturing and logistics space.

We see this playing out in an environment of healthy operating conditions. Trailing four quarter net absorption for our six markets was positive 15.5

million square feet, the strongest in many years. Despite surging demand, development remains in check. At the end of the quarter, construction starts were a modest 7.5 million square feet, below the historic average. Notably, most of these starts were build-to-suit projects.

All of these positive trends have translated into peak level demand in Mexico City, our largest market. This is evidenced by third-party logistics operators, consumer companies, and e-commerce customers seeking larger spaces. We also see significant demand in our manufacturing markets from new companies expanding or opening operations.

To sum up. We had an excellent quarter, and are off to a great start in 2015; we had a significant earnings potential embedded in our portfolio as we roll our in-place rents to market; we are well capitalized with ample liquidity that allows us to take advantage of opportunities as they arise; with 85% of our revenues in U.S. dollars, we have a natural hedge against currency fluctuations; and at current pricing we are trading at a discount to net asset value. We believe our FIBRA is one of the most compelling opportunities for growth in the market.

With that, let me turn it over to Jorge, who will take us through the numbers.

Jorge Girault: Thanks Luis.

As a reminder, FIBRA Prologis began trading on the Mexican Stock Change on June 4<sup>th</sup>, 2014. As such the company does not have comparable financial results from prior quarters. Operational metrics reflect the performance of the properties prior to ownership by FIBRA Prologis, when the properties were managed by its sponsor.

Before I begin, I would like to inform you of a change to our supplemental financial package. We believe that because of U.S. dollar is FIBRA Prologis functional currency, the company is electing to present actual U.S. dollar financial statements information. This method is how we look at our business internally and a clear view for the investment community. The change is effective beginning this quarter.

Turning to our results: with 85 percent of our revenues dollar denominated, as we've mentioned, FIBRA Prologis has proven to be a natural hedge

investment from FX fluctuations. Looking at our financials you can see how our dollar revenues have not had a significant change, and our bad debt expense have also not had a material increase demonstrating the strengths of our revenue mix and tenant base.

Taking a closer look: NOI for the quarter was approximately \$35.7 million dollars, FFO was \$24.9 million dollars, or \$.04 per certificate, in line with our expectations. In terms of value, third party appraisals of the portfolio resulted in a similar valuation for the quarter than previous quarters to approximately \$1.9 billion dollars, representing a significant discount to net asset value at current trading prices.

Turning to operations:

Year-end occupancy for the quarter for operating portfolio was 96.6 percent, up to 30 basis points from our occupancy levels at year end 2014. Year over year occupancy increase 340 basis points.

For the third consecutive quarter, customer retention was over 90 percent. We have seen higher than expected retention levels due to our customer service and portfolio quality.

Net effective rent on leases signed during the quarter increased 8.9 percent from prior in-place rents. The first quarter marked the 8<sup>th</sup> consecutive quarter of positive net effective rent change, consistent with our strategy of pushing rents in our expiring spaces.

Turnover costs were \$1.23 dollars per square foot for the quarter, down from the 4<sup>th</sup> quarter and in line with the total value of the leases signed.

G&A, which is comprised of asset management and third-party professional fees, was \$4.3 million dollars for the quarter, in line with our expectations and guidance.

Switching gears to our capital structure:

At quarter end, we had \$648 million dollars of debt at par and no significant maturities until December 2016.

Our debt covenants are well within compliance with all of our credit agreements, and metrics imposed by applicable local regulation.

As Luis mentioned, on April 13<sup>th</sup> we received the VAT reimbursement from the government, ahead of our guidance and expectation. This VAT was paid in connection of the initial portfolio. We received \$2 billion pesos, approximately \$132 million dollars. We have used roughly \$100 million dollars to pay down our existing line of credit, decreasing our loan value from 26.4 to around 21 percent. The remaining balance will mostly be used to fund future acquisitions.

We have approximately \$400 million of liquidity, including our undrawn revolving facility, current unrestricted cash, and including our \$100 million dollar accordion feature on our revolving facility.

We are holding our 2015 guidance, this includes year end occupancy portfolio to range between 95 and a quarter and 96 and a quarter percent. With the excellent operational results from the quarter, and good prospects for the year we believe we will be in the high end of this range.

Cash same store in NOI growth to range between 4.5 percent and 5.5 percent for the year. G&A for 2015 to range between \$17 and \$19 million dollars, excluding any potential incentive fee.

Acquisitions to range between 130 and 170 million dollars expect to be at the back end of 2015 from Prologis and third parties.

Putting this all together, we expect 2015 FFO to range between 16 and 17 cents per certificate. It's important to highlight that these ranges excludes the potential impact of realized non-cash FX impact on the collection of the VAT receivable previously mentioned.

Payout ratio of 95 percent of AFFO in distribution on an annual basis. Capital expenditures as a percentage of NOI to range between 14 and 17 percent.

To sum up, we had a strong start, shaping 2015 to be a great year. Our results continue to reflect the quality of our portfolio, and healthy operational

conditions. With ample liquidity our growth prospects are excellent, all of which are being well executed by strong local and integrated team.

With that I will turn it over to the operator for questions.

Operator: At this time, ladies and gentlemen, if you wish to ask a question simply press star followed by the number one on your telephone key pad. Again, that is star then the number one followed on your telephone key pad.

We will pause for just a moment to compile the Q & A roster.

Our first question comes from the line of Dan McGoey of Citigroup.

Dan McGoey: Good morning gentlemen. Congratulations on the results.

Just a few questions on rent. Could you talk a little bit about the in-place rents versus market? I know that with the releasing that you've done early in the year that there is relatively left in 2015, but those 2015 rents, I know you cited in the press release, are quite low around \$4.30 level. If you could mention where market – where you expect market for those rents to be, and also a little bit of the same for 2016, the expiring rents versus where the market rent would be. That would be helpful.

Thanks.

Hector Ibarzabal: Thank you very much for your question Dan, this is Hector.

Effectively, as mentioned, our in-place rent is \$4.96 per square feet, and we are 9 percent below what we consider market rent, which is \$5.47.

We have been closing the gap, but the market trends are growing faster than our ability to roll out the portfolio. The fact that we have anticipated renewals on this first quarter I think it's a very good sign, and that is why we are showing this 8.9 percent of rent change.

On 2016 we do expect market trends to keep on growing, and we do expect to have a similar rent change than the one that we are representing in 2015. In

fact, that advantage of the leases expiring on 2016 is good to catch up with market trends, and combined with the higher retention that has been proved to be about 90 percent, makes us feel confident that we will keep on presenting a good internal organic growth for the FIBRA.

Thank you.

Dan McGoey: Great, thank you.

And one more additional question, if I may.

You mentioned you recently received VAT tax refund. Could you give us an update on the timing for acquisitions drop downs from the pipeline, including from having companies development?

Jorge Girault: Thank you Dan. This is Jorge. Thank you for your question.

Yes, as I mentioned, we received the VAT last week. In terms of the acquisition events we have already paid a line of credit with most of those proceeds. In terms of acquisitions, as I mentioned during the call, they are loaded in the back end of 2015, so you will see them coming closer to the end part of the year.

Luis Gutierrez: So, then just to expand. Most of the acquisitions this year will come from the exclusive relationship we have with the pipeline of Prologis. So, those buildings are already under construction, and they will be presented to the technical committee once those leases start to pay, and they are 90 percent leased. So, we expect for this to be in the back end, and majority of their positions will come from the Prologis pipeline in which we have preparatory exclusive access.

Dan McGoey: Got it. Very clear. Thanks.

Operator: Our next question comes from the line of Ivan Enriquez of HSBC.

Ivan Enriquez: Thank you. Luis, Jorge, and Annette, congratulations on the results.



My first question would be regarding the loan-to-value that you currently have, 32 percent, and considering the acquisition that you plan to make by the end of the year, what would be the loan-to-value that you feel most comfortable with? That would be the first question.

Jorge Girault: OK, thank you for your question. This is Jorge.

The loan-to-value we are putting on our supplemental is 26.4 percent, this is according to our measures. On the long run we plan to be in the mid 30's that would be our comfort level in terms of LTV. That said, we can grow that LTV due to certain opportunities that may come, or may arise.

As we pay this line of credit we will come down to 21 percent, approximately. When we do these acquisitions of 130 million we will be more in the 28 to 30 percent level for LTV, we will fund them mostly with the line of credit we have.

Hopefully that answers your question.

Operator: Again, ladies and gentlemen, if you wish to ask a question simply press star then the number one on your telephone key pad. Again, that is star one.

We have a follow up question from Ivan Enriquez of HSBC.

Ivan Enriquez: Hello again guys.

The second question would be considering that you plan to acquire these properties from Prologis Inc. can you please walk us through the development fee that you have. How does it work, that four percent of the total project? If you can provide us an example of how can we consider this development fee works?

Thank you.

Hector Ibarzabal: Ivan, thank you very much for your questions.

As Luis mentioned that most of our acquisitions are related to the exclusive relationship that we have with Prologis. Those properties are bought at

market conditions and there is a third party appraisal for them, so basically FIBRA Prologis does not pay explicitly development fee to Prologis. FIBRA Prologis pays a market fee according to the current market value of the properties.

For the expansions that we are managing inside of FIBRA Prologis, the development fee that is charged from Prologis to FIBRA Prologis is four percent, which is a market condition.

For third party acquisitions we do not pay neither development fee. We pay market conditions, and I just would like to expand that most of our growth is coming from our sponsor, and it has not been easy to find outside in the market the right acquisitions at the convenient price for the company, but we keep on working on that.

Jorge Girault: Just to expand on that Ivan, FIBRA Prologis does not pay any acquisition fee from Prologis, or third party acquisitions.

Ivan Enriquez: OK, thank you.

So, this is basically development fee for expansions exclusively, not for any sort of acquisitions to either third parties, or related parties? It's only for expansions, right?

Male: Yes, the only case that Prologis could be collecting development fee for FIBRA Prologis is if FIBRA Prologis is developing on expansion lands that are part of some buildings that were bought at IPO.

Ivan Enriquez: OK, fantastic. Thank you guys.

Operator: Again, ladies and gentlemen, if you wish to ask a question simply press star then the number one on your telephone key pad.

Our next question comes from Alan Macias of Bank of America.

Alan Macias: Hi. Good morning gentlemen.

Just two questions. The first is in the markets where you are – where you have exposure are there any markets where you have any concerns either in inventory coming in, or just a softer demand? Any concerns that you have seen?

And the second question is on the VAT recovery. Did you receive any interest on the amount that you recovered, and if you plan to distribute that, or not?

Thank you.

Luis Gutierrez: Thank you Alan. This is Luis.

So, the market has been showing pretty good activity across the six markets except one. I would say that the market with the highest activity is Mexico City. Basically we have been seeing a lot of demand coming from, logistic operators that are outsourcing their services, and they are requiring larger spaces. And this has been a great expansion move. It started a couple years, and we see that – we've seen a couple of this commerce important deals also come into the market. So, this trend gives us good will on that sector of the commerce expanding further.

We've seen a lot of demand on built-to-suits on Monterrey. The activity there for big built-to-suits it's important. Most of those companies are manufacturing plants that need expansion space. So, a big important factor is if you can provide additional land in the manufacturing, and that is creating a lot of demand for built suits in Monterrey.

And in the border markets we've seen a lot of new sectors. The medical sector is very active, the electronic sector is also very active, so Tijuana, Juarez have had a very important come back. There is a lot of new employment creation, and we've seen also Reynosa have some healthy moves.

The only market in which we saw demand weaken last year was Guadalajara, for some reason the electronics employment has been down. We have been checking some of those statistics. Although, there is some hope of recovery as we saw Guadalajara with a pick up this first quarter.

Hector Ibarzabal: Just an additional comment.

There's not a situation of concern between supply and demand on any of the six markets which we are participating. Actually the fact that we are showing this increase on occupancy in the first quarter which historically is a quarter in which we reduce occupancy, I think it's a clear sign that markets are in pretty strong conditions.

I have been in this business for 26 years, and this probably one of the best parts of the cycle that I have been able to be at.

Jorge Girault: Regarding your second question, Alan, on the VAT. First we received two billion pesos, roughly. We received all the VAT that we paid, meaning the principle, and we received 59 million pesos as principal included in those two billion pesos.

Luis Gutierrez: Fifty nine million of interest.

Jorge Girault: Yes.

Operator: Our next question comes from the line of Dan McGoey of Citigroup.

Dan McGoey: Thanks gentlemen. One follow-up from me. Jorge mentioned the distribution guidance, I think, in your remarks, and I noticed the most recent distributions looks like you are declared entirely as return of capital. Can you repeat that dividend guidance, and if you have an estimation of how much would be return of capital?

Jorge Girault: Thank you Dan. This is Jorge again.

Regarding the distributions that we did last year, you are right. We did a distribution of capital, even where the FX movement at the end of the year, last year. There was on our debt that we have outstanding, which is 100 percent in U.S. dollars, we have FX loss at the end of the year, and we are carrying that out through 2015. So, in this first quarter our distribution will be in terms of capital redemption.

And regarding the first part of your question, comparing to last year's distributions, yes, we think we are going to beat our distribution for 2014.

Dan McGoey: Sorry, but can you repeat the dividend guidance for this year. I think you mentioned the numbers specifically, and I guess my question is whether there is a limit on terms of how much you can declare as return of capital versus an income distribution.

Jorge Girault: Regarding the limit, there is not limit; it depends on your results. And so far it has been a return of capital on that matter. In terms of the guidance, what we have said is that we will distribute 95 percent of our AFFO at the end of the year on an annual basis, and if you can see our guidance on FFO is between 16 and 17 cents. So, you can do the math on that.

Operator: Again, ladies and gentlemen, if you wish to ask a question simply press star then the number one on your telephone key pad.

Luis Gutierrez: We would like to thank you for your participation in this call. We had an excellent quarter, and we are off to a great start for 2015. We are very optimistic. We are looking forward to grow our portfolio internally and externally. We will keep you posted on our progress, and would like to thank you again. Looking forward to talking to you.

Operator: Thank you. This concludes today's First Quarter 2015 Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.

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