Vesta

Q1 2023 EARNINGS CALL

Date: 21.4.2023

Participants:

- Lorenzo Dominique Berho, Chief Executive Officer
- Juan Sottil, Chief Financial Officer
- Maria Fernanda Bettinger, Investor Relations Officer

Tim (Operator):

Greetings, ladies and gentlemen, and welcome to Vesta's first quarter 2023 earnings conference call. At this time, all participants are in listen only mode. A question and answer session will follow the formal presentation. As a reminder, this call is being recorded. It is now my pleasure to introduce your host Maria Fernanda Bettinger, Investor Relations Officer. Please go ahead. Go ahead.

Maria Fernanda Bettinger:

Good morning everyone and thank you for joining our first quarter results call. With me today, I have Lorenzo Domninique Berho, Chief Executive Officer and Juan Sottil, Chief Financial Officer. The earning release detailing our first quarter 2023 results crossed the wire yesterday afternoon and it's available on the company's website along with our supplemental materials. Before we begin the call today, I'll remind you that today's presentation contains forward-looking statements. Forward-looking statements are predictions, projections or other statements about future events. These statements involve risk uncertainties that may cause actual results and tends to differ materially from those projected. For a full discussion of the risk and other factors that may impact these forward-looking statements. Please refer to our first quarter results, press release and our MBV filings. Please also note that all figures included herein were prepared in accordance with IFRS and are stated in nominal US dollars unless otherwise noted. Let me now turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho:

Thank you, Fernanda. Good morning everyone and welcome to our first quarter earnings call. Let me begin by thanking our team for delivering an excellent start to the year. We had a strong first quarter achieving almost 20% year-on-year increase in revenue driven by high occupancy and rent increases. During the quarter we signed 1.2 million square feet of new contracts with companies such as Polaris, DB Schenker and TLC Moka among others. We also saw almost 1 million square feet in lease renewals. We continue to see Vesta's buildings being occupied even before delivery, which was a case with three buildings this quarter, two in Monterrey and one in Ciudad Juarez.

We had 3.8 million square feet in projects under construction during the quarter in line with last quarter's pipeline. While there were no new construction starts during the first quarter, we're leading a strong foundation for new buildings over rest of the year working with development teams to target larger projects within our five strategically defined regions with a particular focus on manufacturing and e-commerce opportunities. You will recall we acquired 52 acres of land in the San Martin Obispo punto norte area of Mexico City during the fourth quarter 2023 adjacent to one of Mexico's main roads with optimal connectivity. This best in class location is ideal for last mile distribution and logistics and another addition to Vesta's increasing footprint within Mexico City and metropolitan areas with trophy assets. We expect to begin construction on this land in the near future.

As you have heard me comment in the past, we believe Mexico nearshoring is essentially still in its early stages during the first quarter 2023, we continue to see American, European and Asian businesses move their manufacturing operations to Mexico. Nearshoring represents a viable and enduring long-term solution to the challenges many companies face when operating in other markets. Economic and political factors have taken the bloom of the rose for manufacturing in China in particular. At the same time, the growth of Mexico and US trade has reduced costs, improved quality and made the concept of nearshoring in Mexico a truly viable if not sometimes superior alternative for US manufacturers compelled to make the move. We have seen clear indications that Mexico is ready to meet the moment. This includes its manufacturing, which today is better able to handle increasing logistics demand also with a strength and focus on research and development. Clearly it is difficult for us manufacturers to walk away from the billions of US investments they have made in other markets, but the exodus to Mexico's friendlier shores started as a trickle but has become a steady stream.

We believe this is a lifetime opportunity for Mexico industrial real estate in general and for Vesta in particular. Our state-of-the-art industrial parks and facilities have secured our reputations as Mexico's premier industrial real estate developer. 2023 marks Vesta's 25th anniversary. We have spent 25 years building and expanding a solid foundation, establishing deep relationships with the world's premier global companies and a presence in Mexico's most strategically relevant markets, all while assembling one of the most experienced operating teams in our industry, attracting each region's very best talent. And Vesta's 25 years of experience building up premier properties is an important differentiator for our clients.

While Vesta has seen challenging operating environments over the last 25 years. We're now witnessing the kind of explosive growth we have long anticipated based on the unique qualities that the Mexican manufacturing market represents. Today, Vesta is in the privileged position to have achieved both the size and the strategic vision to capture this moment, with the demonstrated ability to size opportunities in a disruptive environment. We can and will continue to be opportunistic, driven by our experience and entrepreneurial spirit. With that, let me turn it over to Juan and I will return for some brief closing remarks. Thank you.

Juan Sottil:

Thank you Lorenzo and good day everyone. Let me begin with a summary of our first quarter results. Starting with our top line, as Loren mentioned, we had a strong start of the year with total revenues of 20% to 50.2 million, mainly viewed to rental revenue coming from new leases and inflationary adjustments on rental property during the quarter.

As a reminder, most Vesta leases are indexes to inflation, therefore we continue to benefit from the favorable effect of higher than expected inflation on our top line results. In terms of the currency mix, 86.7 of the first quarter revenue was nominated in dollars decreasing from 87.1 recorder in last year's comparable period. Turning to our cost structure, total operating cost reached 3.2 million in this quarter from 2.2 million in the first quarter of 2022. This was mainly viewed to hire real estate taxes, maintenance and other property related expenses as well as the increase in the number of lease properties in our portfolio. Net operating income increased 18.1% to 47.7 million driven by higher rental revenues. While the margin contracted 120 basis points to 95% mainly due to higher cost from rented properties. Administrative expenses were up 28.2% reflecting again this quarter higher non-cash expenses due to an increase in the company's long-term compensation plan.

In turn, EBITDA reached 42 million in the first quarter of the year, an 18.6% increase compared to the prior year's quarter and the margin decreased 60 basis points to 83.7% as compared to the 84.3% from the same quarter last year. Moving down the PNL, total loader income reached 4.3 million compared to 27.4 million in the first quarter of 2022. This decrease was mainly viewed to lower property evaluation gains and higher interest expense partially offset by a positive variance in foreign exchange results. As a result, we close the quarter with a pretax income of 43.1 million compared with 60.8 million in the first quarter of 2022. While the pretax [inaudible 00:09:29] increased 21.6 to 30.4 million and NAV per share increased 10.1% to 2.87 from $2.61 per share in the same quarter of 2022. Now turning to our CapEx and portfolio composition, we invested 54.2 million in the quarter mainly in the construction of new buildings in the northern and Bajio region as of March, 2023.

The total value of the portfolio was 2.79 billion comprised of 202 high quality industrial assets with a total GNA of 33.7 million square foot and with 86.7% of total income denominated in dollars. Year over year, our stylized portfolio grew 5.6% to 33.1 million in a square feet with an occupancy of 96.7 from 94.3% in the first quarter of last year. Our land bank stood at 38 million square feet as of March, 2023 and remained unchanged from December, 2022. Turning to our balance sheet, we closed the quarter with a total debt of 930 million. Net debt to EBITDA was 5.3 times and our loan to value ratio was 32%.

Cash and equivalence stood at 98 million. That together with our 200 million committed credit line provide us with total liquidity position of nearly 300 million at the end of the first quarter. Subsequent to quarter end on April 17th, we paid a cash dividend for the first quarter of 2023 equivalent to $9 cents per share in pesos per ordinary share. With that, this conclude our first quarter 2023 review. Operator, could you please open the floor for questions?

Tim (Operator):

Yes, thank you. We will now move to the question and answer section. If you would like to ask a question, please press star two on your phone and wait to be prompted. If you are dialed in by web, you can either type your question in the box provided or request to ask a voice question, so our first question comes from Carlos Peyrelongue from Bank of America. Your line is open. Please go ahead.

Carlos Peyrelongue:

Thank you gentlemen for the call and congratulations on the strong results. Two questions if I may. First one, if you could give us an idea of what was the positively spread that you got during the quarter for those contracts that expired that were renovated during the quarter and second, if you could give us some idea of occupancies in your key markets just to get a sense of how they've been evolving on a quarter over quarter basis if you have that number. Thank you.

Juan Sottil:

Carlos, thank you for the question. On the lease spread we didn't have that many maturities during the quarter and we had a lease of the spread of between five and 15% over and above inflation depending on the markets. As you would expect, northern markets are more positive than central markets.

Carlos Peyrelongue:

Thank you Juan, any from the occupancy?

Juan Sottil:

On that we continue to extend the maturity profile of the portfolio even on the rollover. So that's very positive for us. And the second question was on occupancy of...

Carlos Peyrelongue:

Of your key markets.

Juan Sottil:

Oh my God, let me get back to you. I don't have it on top of my head but by the end of the conference call I will just...

Carlos Peyrelongue:

Thank you.

Juan Sottil:

Give them to you.

Tim (Operator):

Thank you. Our next question comes from Rodolfo Ramos at Bradesco. Please go ahead.

Rodolfo Ramos:

Thank you and good morning everyone. A couple questions as well on my side, just looking at the 20% of VLA that expires this and next year, can you tell us how much of that you expect to reset to market rate and how much of that has extensions still left and if you can quantify the magnitude of adjustment you would expect there.

Juan Sottil:

Okay, so can you just briefly repeat the question? I got lost in a train of thought, sorry about that. That was my mistake.

Rodolfo Ramos:

No, no worries. Fine. Just that when we look at the GLA that expires this and next year, just want to get a sense of how much of those contracts that expire do you expect to reset to market rates? In other words, how much or the other way around, how much of that GLA that is expiring has extensions that tenants can still extend the current rates with inflation?

Juan Sottil:

Sure. It's a very common feature in the leases that we have and I would venture to say that the leases that the market as a whole has that most leases have two extensions of three or five years. That's very common. The way that we manage this is we typically get close to the clients and those, but that's one of our most important differentiating factors that the fact that we are, the company has its own asset managers and we are very close to the clients and what we do is that in spite of the short term extensions that the contracts have, we invest in the properties because most clients will have requirements of property improvements and what have you and we trade off the investments of our CapEx into the properties in order to upgrade the timeframe of the extension.

So instead of a three or five year extension, we typically do seven years, five years if it's a three whatever, and then we calculate the rent so that we get over the in place rent. That tends to be a winning proposition. We have a better building which is a priority for our company and the client gets to have the TI's that they require at a minimal expense to them. For example, sometimes they require larger, I don't know, larger luncheon room or what have you, doors, certain improvements and we trade off those two things. So that's the way we manage rollovers.

Rodolfo Ramos:

Okay, thank you Juan. And just the second one, when we look at your land reserve, roughly about 10% is in the Monterrey market and you currently already developing something in the Apodaca submarket. So my question is there anything in that specific market holding you back to develop the rest of your land reserve sooner that than perhaps you indicated in your pipeline and if you have any presence in the Santa Catarina or Escobedo sub-markets which is where Tesla or close to where Tesla and suppliers will be setting up operations. Just want to get a sense whether, you have any bottlenecks there that might be holding you back and how does your land reserve look in that submarket? Thank you.

Juan Sottil:

Sure, great question. As you are well aware, we have penetrated the Monterrey market with two very successful projects. The first one being in Guadalupe where we were able to lease up to [inaudible 00:18:08], to Oxxo and Amazon among others and our second project in Apodaca. In Apodaca, our first anchor project was leased or the first two buildings to Polaris, which is one of the greatest news we have for this quarter and part of the land that we still have in Apodaca part of it we're considering an expansion also there could be a potential expansion for the anchor tenant. However, we are also expanding and developing two new inventory buildings in Monterrey and hopefully throughout the year we're going to be able to lease them up even before finalizing construction. As the year continues, we are paving the ground so that we can start construction of the additional land as soon as we can be able to keep on leasing up.

So we feel very comfortable that while this period of marketing we're going to be able to put the infrastructure in place, the urbanization for the organization for the land and I'm pretty sure that this privileged location will benefit from the strong market. Now clearly Apodaca is the most traditional industrial market in Monterrey, which is in the opposite side to Santa Catarina where Tesla is going. However, we feel very comfortable by having land in the opposite side to Tesla because Tesla also represents a challenge when it comes to labor and if you develop a building that is next to Tesla, the clients might have a challenge for labor and we think that the Apodaca and Guadalupe region where we're at is a privilege in terms of having accessibility to labor accessibility for logistics and even for suppliers of Tesla. It has even a great connectivity in the most desired industrial market. But we are excited about the Tesla announcement and I'm pretty sure that it will benefit Santa Catarina, Monterrey and even the rest of Mexico for its supplier base.

Rodolfo Ramos:

Thank you.

Tim (Operator):

Okay, thank you. Our next question comes from Vanessa Quiroga at Credit Suisse. Please go ahead.

Vanessa Quiroga:

Yes, thank you and congrats on the results. My question is about your growth plan. Where would you like to concentrate your development growth going forward and how you expect to get the funding for the growth? After that shareholders meeting, just any update on those plans would be great and also any update on the environment in Bajio and on timing for Bajio to become a more attractive region for the nearshoring trend in so that Vesta is able to use more rapidly [inaudible 00:21:22] bank in the region. Thank you.

Lorenzo Dominique Berho:

Thank you Vanessa and good, thank you for your question. We are executing very successfully the development pipeline for the 1.1 billion dollars we presented last year in our Vesta day. That actually fortunately is coming quicker than expected. Which markets do we see with the major demand? Well it's clearly the five strategic markets that we defined as the five Olympic rings, but we're currently very active in Tijuana with the mega region project. We're very active with the new land acquisition we did in Juarez very close to the Zaragoza bridge crossing and we actually leased to DB Schenker a great logistic company from Germany focusing the integration of supply chains for the electronics business and that was the first project that we were leasing and we're going to be very active in Juarez two and we have land to develop still for the next upcoming years.

Again Monterrey that I recently mentioned. Mexico City with two projects that are going to be real iconic projects for Vesta in the Mexico City area and Bajio is coming actually. It's getting back on track and we might see a greater commercial and leasing activity particularly in the Queretaro market and Guanajuato. So we are seeing that there's a strong demand in these major markets. I even just to mention Guadalajara is another market that we're very strong at and we have been able to lease at under great conditions and ideally if this continues to move as fast as it is happening, we're going to be able to invest about 250 million per year and the idea after we got the shareholder approval to raise equity, ideally if when markets permit at some point we might have an equity issuance and that's something that we have talked already with existing shareholders.

We see a strong pipeline even on top of our existing pipeline that is little by little building up with a strong demand in most of these markets and therefore we see that we might have an opportunity to raise capital and put money to work even that we have a strong balance sheet. We believe that this is a great path going forward to particularly take advantage of the great opportunities in the market and the strong operational presence that Vesta has in many of these dynamic markets.

Vanessa Quiroga:

Thank you very much for the answer, Loren.

Tim (Operator):

Thank you very much. So our next question comes from Jorel Guilloty at Goldman Sachs. Please go ahead.

Jorel Guilloty:

Yeah, thank you for taking my question. I actually have two. One is you've made it clear that on your investor day and you just repeated it, that you're focused on the 1.1 billion development pipeline. But I was also wondering as you look at your evaluation and you look at opportunities, if MNA is something that could be of interest or is something that you might think about, just any color you can provide on that possible consolidation strategy would be helpful. And then my other question is around Bajio dynamics. We actually saw, I believe it was Guanajuato that saw a decline in occupancy quarter to quarter. So I was just wondering if you can talk a little bit about what drove that and as I look at the Bajio in general, you do have that delta between the north and the central regions of Mexico.

It's 8% vacancy in Bajio, 2% vacancy in the north and about the same in central Mexico. How do you see that developing in your existing portfolio in terms of perhaps closing that delta between the Bajio and the rest of Mexico? What with the timeframe, how do you think it happened and so on? Thank you.

Lorenzo Dominique Berho:

Thank you. Thank you Jorel and good question and I will start by the last one first off. I think that as long as we continue growing and expanding according to our strategy in the five main regions, this will clearly balance out well our diversification among markets. So clearly we're not only a developer in the Bajio, Bajio's an important market but we are also a leader in markets like Tijuana where we are the largest landlord in Tijuana and we have over 6 million square feet and we are currently developing and we're seeing new opportunities coming in that market. The same for Juarez and Monterrey where we have as mentioned, we have been able to not only close with great tenants but we are paving the growth for the upcoming years in these two markets are going to be very dynamic and the rest for Mexico City and Guadalajara.

So having said that, if we continue growing and we eventually get to 50 million square feet, this will balance out well and close that particular delta that you mentioned between the different markets and so we're going to be seeing very, very soon a very well-balanced portfolio in Vesta being a leader in the most dynamic markets and continue to take advantage of the markets that will foster growth and the Bajio will we believe that we'll continue to show growth, show resilience with great companies and have say and will show also long-term sustainability opportunities in the strong industrial markets. Regarding MNA, as you remember last quarter we were able to acquire in the state of Mexico a couple assets related to the supply chain of electric vehicles business for Stellantis, Chrysler, ex- Chrysler now is Stellantis, Jeep and our approaches will continue to be opportunistic.

We have such a great pipeline of development with great quality assets in the best markets at very attractive returns. Development deals of 10%. So we will continue to do acquisitions whenever there is an opportunity to buy at discounts, to narrow replacement costs at attractive yields and particularly at yields that we believe that are accretive for our net asset value per shared focus. There's been some activity in the lower 6% range on acquisitions. We think that on that range it's really hard to increase value on a net asset value per share basis and also there has been also lower type of consolidations but particularly in markets where we do not necessarily would like to focus or the quality of assets do not match our strategy. So we're going to be very careful on the acquisitions. Thankfully we have a strong development pipeline that actually is not only accelerating but might even at some point increase.

Jorel Guilloty:

Loren, a follow up if I may. You mentioned sixes for MNA. Do do you think there could be pressure for that to go even lower?

Lorenzo Dominique Berho:

Yes, there's a lot of appetites to enter the Mexican industrial market and I mentioned six, but I heard that it has gone even below six.

Jorel Guilloty:

Great, wonderful. Thank you.

Lorenzo Dominique Berho:

But it's just a reference. It's just a reference. There's a lot of appetite. This is an industry that represents great risk adjuster returns and I'm pretty sure that cap rates will continue to be a very well bid. This is a fantastic asset class with long term opportunities and if you compare with other asset classes which are currently being punished and are actually in many cases driven by pesos, interest rates in pesos are at 12%, 13, 14% when it comes to a loan. That's why if you consider and if you compare it with a dollar lease is long-term lease is great companies in a hot market like the industrial sector globally, it doesn't surprise me to see these low cap rates and that actually makes us actually focus on the development because developing at 10% and having deals at 6% for good quality assets, that's the most attractive and appealing value proposition that we can find.

Jorel Guilloty:

Very clear. Loren, thank you.

Tim (Operator):

Thank you. Our next question, is from Andre Mazini at Citi, please go ahead.

Andre Mazini:

Sure. Hi Loren. Loren, Fernanda, thanks for the call. So two quick questions. The first one a little bit of a follow-up on stuff people have asked, why do you think nearshoring is happening the most in Monterrey and Saltillo, right? So 60% of nearshoring is happening over there, Monterrey and Saltillo, at least regarding the numbers we have. So you think it's just a matter of proximity to the US? Of course it's the biggest city among the three metropolis of Mexico which is closest to the US. It's just a matter of proximity or something else? Maybe public policy, infrastructure, so and so forth. So another way of asking what Monterrey has that maybe the Bajio still doesn't have to capture the 60% share of nearshoring, which is definitely a lot.

And the second one will be on the likely dual listing that you guys are considering doing. So talk a little bit about the cost benefit analysis of doing a dual listing. On the one hand you could increase cost, compliance costs with another stock exchange and maybe split liquidity among two stock exchanges, but on the other hand you can probably tap a new investor base being in another stock exchange. So how do you guys think about the trade-offs there? Thank you.

Lorenzo Dominique Berho:

Thank you Andre. And thank you for your question. Well first of all, I think that when it comes to nearshoring, clearly many of these companies are fully related to the US and that's why we normally, this starts at the border or the north part of Mexico. Monterrey being a part of the North part of Mexico. Monterrey is the largest market, industrial market in Mexico. And that's why I believe that it has attracted the attention of nearshoring opportunities initially in the north, in this area area first. We think that this will have an impact in the rest of the country. Bajio Central Mexico actually too. And I think it's going to see that impacting the whole country. Again, I think that Monterrey is also doing a great job attracting investment and it's a great city. So therefore I think that today it's very appealing to consider projects in Monterrey.

However, we think that this wave of nearshoring, we think it's just starting and we are going to see lot more of foreign direct investment coming into electric way called business industry, electronic industry, even aerospace industry, the decoupling from China, even considering industries that were gone long time ago like textile industry somehow in the garment industry. So it's going to be interesting how this impacts the rest of the country. On your second question, well we will consider and analyze different alternative markets. There's some alternatives also for dual listings. So for the moment we're just analyzing and we will for sure make the decision where it would may make the most sense for the company.

Andre Mazini:

Very clear. Thank you Loren.

Lorenzo Dominique Berho:

Gracias.

Tim (Operator):

Thank you. Our next question comes from Francisco Suarez at Scotiabank. Please go ahead.

Francisco Suarez:

Hello, good morning Fernanda, Loren, Juan. This is a great opportunity to talk to you. Thanks for this call. The question that I have is mostly on your pipeline. You have roughly 3.6 million square feet of new GLA on spec property. It will we delivered for the next few quarters. Can you give us a sense of on how much of that is released, how much, what are your expectations on that? Thank you.

Lorenzo Dominique Berho:

Great Francisco, thank you very much for your question. As you can see that you're completely right in our supplemental package, out of the almost 4 million square feet that we are currently presenting under construction, it's almost 40% has been already previously released, which is a great number. However, the pipeline for us, it's not only what we have under construction but what we're paving the road for and we see a very strong pipeline coming in the upcoming years. A combination of inventory buildings as well as potential build to suits. An important way to see not only our construction pipeline, but just look at the number of the projects that we have currently in our list up stage or stabilized properties. Our stabilized properties that are not same stores, which are the projects that we pretty much developed throughout last year or end of 2021. 100% have been leased, which means that the market is incredibly strong and even if we inventory buildings, even if it's either through construction phase or later, we are able to lease them up very, very quickly.

The same for our list of properties. And that's why our strategy for inventory buildings is still paying off. On top of that with a high occupancy in our existing portfolio at let's say somewhere north of 96%, we think that it's the right time to continue developing inventory buildings for spec buildings. That's why we will continue to focus on the 250 million approximately of investment pace per year balancing throughout inventory buildings and build to suit. But we think that the opportunity of developing and capture 10% return on cost is very, very appealing and that's why we are making strong moves to get ready as soon as possible. Demand is there, good companies want to grow and we are taking advantage of that particular opportunity. So we're going to continue to see a lot of construction throughout this period.

Francisco Suarez:

Totally agree. Thank you so much. Congrats again.

Lorenzo Dominique Berho:

Thank you.

Tim (Operator):

Thank you. And our next question comes from Anton Mortenkotter from GBM. Please go ahead.

Anton Mortenkotter:

Hi guys. Congrats on your results and thank you for taking my question. I have just two quick ones. One is could you provide a breakdown on the 54 million CapEx you did during the quarter? And the second one is, we know that the infrastructure and [inaudible 00:38:26] services in some regions of the country have been kind of restricted, have you seen any shift or efforts from governmental agencies to improve this? Thank you.

Lorenzo Dominique Berho:

Sorry it was hard to listen to the question. Can you repeat that again?

Anton Mortenkotter:

Sure. Just if you could provide a breakdown on the 54 million CapEx you did during the quarter and also if you have heard anything from governmental effort or something to improve the restrictions and the lack of capacity and energy infrastructure and overall services in some regions of the country.

Lorenzo Dominique Berho:

On the CapEx look, the CapEx is basically executing the pipeline, the development pipeline that we have disclosed on the supplemental package and it also encompasses some advanced payments on the various buildings and projects that we are executing. So that's basically, but we're closely following what you are seeing on the supplemental package on the pipeline. Just taking note that from when we start a new building, we do give an advanced payment so that the contractor can take a position on the key raw materials, think about steel and concrete. And that's why we typically do at 30% or 35% even advanced payments so that they can secure the supply of those key elements and they can comply with a very tight pricing that they provide to us. So basically that's what you might see on the CapEx. No? But I think that the headline that we all should think about is that we expect this year to be another year of 250 million dollar CapEx and we see that to be executed without any issue. No.

On the second question, which is energy and infrastructure. Well look, we work a lot with governmental agencies and local governments to secure the supply of those things well in advance. So when we plan for a part, we're already talking to the CFE to see how can we guarantee the supply of electricity? That implies significant investments and we have the balance sheets to do that. And that is why when we have a park, it becomes a reference park in the regions that we operate because we plan well ahead in advance to get the necessary energy and other infrastructure, public infrastructure that we will need. That's basically what a good developer does.

Tim (Operator):

Okay, thank you. So our next question comes from Felipe Barragan from BTG Pactual, please go ahead.

Felipe Barragan:

Good morning guys. Thanks for the call in and congrats on the results. I have a couple of questions. My first one is on USD income. So you guys had a nice jump this quarter and we saw a strong peso. So I'm just curious on your thoughts on how you guys are navigating the current environment, where the Mexican [inaudible 00:42:19] are getting stronger and then how you guys are seeing the exposure of the currency for the firm. And my second question is in the press release, you guys noted that you guys looked at the development and commercial teams to capture both manufacturing and e-commerce opportunities. I'm just curious, is there anything notable that you'd like to share from the time digging this quarter, digging more into these opportunities? Is there anything unique that you guys would like to share with us? Thank you.

Lorenzo Dominique Berho:

Regarding the currency position of the company, as you know, we have always liked that Vesta has a very strong long dollar position. We believe that... We're building, we just had a 25-year anniversary. We're building Vesta. We continue to build Vesta for the next 25 years. And I think that over the long term, having long term leases and dollar denominated leases are what will provide the best value for our shareholders. If the [inaudible 00:43:20] is strengthening, well that's great, that puts some pressure on us. But over the long term, long-term dollar leases with an average maturity of five years, those provide the quality of earnings that I think all of our shareholders value the most. We will continue to manage the cost implications of that by trying to have initiatives of cost savings so that my income statement stays profitable. We have a very profitable EBITDA and we are keen on keeping that EBITDA as high as possible. No?

So look, we think that we will continue to have this policy we will not sell dollars forward to get an advantage and have some kind of financial income for that. That's something that my shareholders can do on their own if they think so. But I will like the type of exposure that we provide our shareholders and so we'll just keep managing that. In relation to e-commerce and the type of client that we're seeing, I have to underline that the clients that we're closing leases with is quite diverse. We're no longer seeing auto only clients. We're seeing a well diversified client base, e-commerce, industrial logistics, logistics for exports, healthcare electronics significantly. And so it's quite widespread and that's what you will expect on the initial phases of an expansion. And that's why we believe that the expansion that we're feeling is not a short term phenomena, is rather a meeting and it'll take years to reach the peak and to end the cycle. So we're quite optimistic in that regard.

Felipe Barragan:

Great. Thank you guys.

Tim (Operator):

Thank you. Our next question comes from Mariel Abreu from T Rowe Price. Please go ahead.

Mariel Abreu:

Hi, thank you for taking my question. I would like to have more color on how you go about securing the energy in the areas where you are growing. I have engaged in calls with people also close to the government and the messaging, it's pretty negative in terms of the availability of infrastructure in certain regions, especially transmission and how limiting that could be for the nearshoring team and all the demand that may come to Mexico. So I will appreciate more color on your thoughts there. How companies will continue to come to Mexico if you have those limitations. And also probably the lack of access to cheap energy, which is the other, I think area of concern is if Mexico is really not supporting renewables, for example, can you please comment on that? And then the second question is regarding debt appetite. I know you're waiting to raise equity. That's the plan. What about a debt issuance in the international market? Thank you very much.

Lorenzo Dominique Berho:

Sure. Let me take the bottom and then the first. The bottom one is, Maria, we have a strong balance sheet right now. We have enough capacity in the balance sheets to execute this year's plan and thereafter. So we have a strong revolver which is unused and it's a committed revolver and it's a 200 million dollar revolver with our cash on hand, we have no issue for the 250 CapEx that we're planning. Regarding the debt issuance in the future, we will refinance the debt maturities that we have when they are due, which is way in the future. So that's about it. We will come to the markets as needed. I think that's why we keep managing the company to have flexibility and to be a rated company, triple D- rating company by the three agencies and we manage the company to keep that rating.

So we'll access that market as needed. Regarding-

Francisco Suarez:

And probably the energy, I can just comment that clearly has been a challenge and it's the challenge that we have always been seeing in the last years, particularly current administration. However, I will only use a couple examples that probably identify or let's say reflect what's happening in our industry. The first one is Tesla in Monterrey. Tesla is bringing a huge investment, multi-billion dollar investment that will definitely require huge amounts of energy, not only energy, renewable energy. I don't know exactly the details because they have not been provided, but I'm pretty sure that Elon Musk and his team has been able to secure some energy for their project. So it's a good example that at some point the government has to be somehow open to supply and have the transmission for projects like Teslas and other projects that I'm sure that will require major amounts of energy.

However, in the projects that we're developing, every time we start a project, we secure some energy so that our clients can have some. And a good example is Tijuana. Tijuana is a project that we'll have six buildings. We have already leased up three of them. And the most recent one being leased to TCL, which is a Chinese company in the electronic sector, is a second building we lease to them. They do TVs and screens, television screens that are quite attractive in the US market and they require energy. And we were able to secure the energy for our industrial park. We have put a large investment in the transmission internally of the park and the supply so that we can have the energy for lag manufacturing, for logistics, and enough to capture these type of tenants, which actually are the bread and butter of Vesta.

Any other major user of energy could probably be a challenge, but for the moment, the type of clients that Vesta has, we have been able to secure some of that. It's challenging, yes, but I think that our ability to develop for 25 years gives us the advantage is being close to the government agencies that require this, also to anticipate for potential demand. And I think that laying off that part of the investment from the beginning on is giving Vesta actually an advantage to other developers.

Mariel Abreu:

Yeah, thank you very much. This is reassuring the fact that you are able to secure energy for your pipeline. I guess I was focusing more on what's the life of this nearshoring team if things can't keep up like this. Just future demands being met by the supply of energy and how that's built up in Mexico. So in my mind, something that I'm keeping in mind, thank you very much for your answers.

Lorenzo Dominique Berho:

No, definitely. And we'll continue the conversation Ma, thank you.

Tim (Operator):

Perfect. Thank you very much and thank you for all your questions. I'd now like to turn the call back over to Mr. Berho for his concluding remarks. Please go ahead, sir.

Lorenzo Dominique Berho:

Thank you, operator. It's an exciting time for Vesta. We are focused on executing on our level three strategy also with an eye towards the future ahead. 25 years have enable unparalleled industry experience, deep client relationships, and a privileged position within our markets. Vesta's nimble adaptability and entrepreneurial spirit will ensure we continue capturing today's exciting opportunities and delivering strong shareholder value. Thank you to entire Vesta team for your hard work and to our shareholders for partnering with us on the path ahead.

Tim (Operator):

This concludes today's conference. You may now disconnect your lines at this time. Thank you for your participation.