

## RESULTS CONFERENCE CALL

November 10, 2022

### Arkadin

Welcome to PEI's Q3 2022 Investor Results Conference call. The conference call will begin in \_\_ minutes, thank you for waiting.

Welcome to PEI's Investors Results Conference Call for the Third Quarter of 2022. My name is [\_\_\_\_] and I will be your operator for today's call. Currently all participants are in silent mode.

You can ask questions through the web platform or live through your phones. Questions will be answered at the end of the session. Please note that this conference call is being recorded.

We now begin the results conference call. I give the floor to Mr. Andrés Felipe Ruiz, Pei Asset Management's Vice President of Finance and Investor Relations.

Good morning everyone, it is a pleasure to greet you and begin with our results conference call for the third quarter of 2022. Jairo Corrales - Pei Asset Management's President and Alejandro Alzate - Pei Asset Management's Commercial Manager are joining us today.

To start, let us hear a few words from our president, Jairo Corrales, who will share some of the most relevant events and initiatives of this third quarter. Then, we will continue with a summary of the vehicle's management and the most relevant events of this third quarter of the year. We will also discuss the progress of the portfolio's commercial management and the financial results for the period, followed by the prospects for the end of 2022, and will close with a discussion of the progress made in connection with the vehicle's strategy. We will end with our usual Q&A session. I now give the floor to our President, Jairo Corrales.

## **MESSAGE FROM THE PRESIDENT**

### **Letter from the President**

## **FOLLOW-UP OF THE LIQUIDITY STRATEGY**

### **Slide # 5 - Follow-Up of the Liquidity Strategy**

Now, with slide 5, we want to begin by informing you on you the progress of the liquidity strategies approved by the investors during the last Extraordinary Assembly of June 15, which were approved in August by the Financial Superintendency of Colombia. As you may remember, the equity securities migrated in August 22 from the fixed income to the variable income trading session, enabling the activation of the other strategies proposed. First, the securities' split, simultaneously with the migration, applying a conversion factor of 1 to 100. Second, the liquidity provider, a market agent in charge of promoting liquidity in the capital market by constantly placing buy and sell positions. Additionally, the securities' repurchase mechanism was implemented on October 20. So far 17,565 securities have been repurchased at an average price of COP 39,200, reaching a total of COP 687 million. Finally, delving deeper into the liquidity strategy, we also included *LarrainVial*, a second international liquidity provider, which shall support *Alianza Valores's* liquidity and pricing services provision.

## **FOLLOW-UP OF THE COMMUNICATION STRATEGY**

### **Slide # 7 - Follow-up of the Communication Strategy**

Moving on to slide # 7, we will discuss the progress made in connection with our communication and investor relations strategy. We have been sharing information on the real estate assets' performance and the specific features of the fund, as well as the capital markets' context and evolution of the real estate sector. On the one hand, we designed the "*Entérese*" newsletter [*Find Out Newsletter*], which will provide updates on what has happened in the capital markets, the evolution of the real estate sector in Colombia, and the progress made in the liquidity strategy's implementation. We will continue to release this newsletter periodically.

On the other hand, with the securities migration to the equities trading session, several economic research teams from stockbrokers such as *Corredores Davivienda*, *Valores Bancolombia*, and *Itaú*, have published independent hedging reports with current valuation exercises for the vehicle and recommendations on PEI's target price in the secondary market. Today, these analyzes suggest that the fair price per equity security may be in a range between COP 95,249 and COP 98,386. Contemporaneously to these initiatives, we have continued to meet with the investors and commercial forces through different channels such as talks, Webinars, calls, and 1-on-1 meetings, with an aim to providing a personalized attention to all investors, resolve any concerns, and deliver information on the current context.

Finally, we have made available to all of you the "*We want to keep you informed*" repository on PEI's website, where you will find a straight-forward infographic with the most relevant figures, an explanatory primer on the change in valuation, and illustrative videos on some of the most relevant changes experienced during the last year. All of these efforts aim at maintaining an active and close communication with our investors, keeping them well informed on any news related to the fund. In this regard, we invite you once again to contact us through our email: [inversionistas@pei.com.co](mailto:inversionistas@pei.com.co).

I now give the floor to Andrés Felipe Ruiz, Vice President of Finance and Investor Relations, who will continue with our agenda. Go ahead Andrés.

## **PORTFOLIO'S FIGURES - 3Q 2022**

### **Slide # 9 – Portfolio's Figures**

Thank you, Jairo. Slide # 9 highlights some of the most relevant metrics for this quarter. In this connection, the portfolio closed with over COP 8.4 billion in assets under management, represented by almost 1.15 million m2 of leasable area. This, preserving the diversification strategy with 42% of the investment property in shopping centers, 3% in commercial premises, 35% in corporate assets, 16% in logistics assets, and 5% in the specialized assets category, along with more than 5,200 investors and nearly 2,900 tenants of the fund.

## **MAIN MILESTONES**

### **Slide # 10 - Main Milestones**

Slide 10 shows some of the most relevant results of the vehicle. During this last quarter, our operating income reached almost COP 150 thousand million, 22% above the same period of 2021. We also registered an EBITDA of COP 96,299 million, corresponding to a 26% increase compared to the third quarter of 2021. Profitability reached operating margins (NOI) of 80.8% and an EBITDA of 63.9%. All of the above stemmed from sustained healthy levels on the physical vacancy, which reached 6.0% – decreasing 124 basis points compared to the vacancy registered for the same quarter of 2021– and stable economic vacancy levels of 8.8%. Both the vehicle’s commercial management and the real estate sector’s dynamics supported the above results.

On the other hand, the debt service amounted to 9.9%, an increase associated with the rise in inflation during the last twelve months, which will reflect on readjustments of the lease agreements in 2023. Therefore, with the cash flow’s distribution on November 16, this year COP 4,119 will be distributed per share, equivalent (prior to the split) to COP 411,870 per share, representing a 3.6% dividend yield.

## **PORTFOLIO’S COMMERCIAL MANAGEMENT**

### **Slide # 12 Portfolio’s Occupation**

Slide # 12 shows the portfolio’s commercial management results. Later we will discuss with more detail each category’s performance.

The upper left graph shows the physical vacancy’s evolution from the Q3 2021 to the end of the Q3 2022. As you can see, this ratio remains at 6% levels, below the 6.1% average physical vacancy for the year, equivalent to about 68,854 m<sup>2</sup> of the total leasable area. In this connection it is worth highlighting that both *Rushbet* and *Command Alkon* recently joined us as tenants, counterweighting the return of certain areas in the *Capital Towers* building by *Itaú*.

Economic vacancy closed at 8.76%, which compared to the immediately previous quarter represents an increase of 88 basis points, mainly driven by the grace periods granted to the new tenants that joined the portfolio's corporate category during the quarter in assets such as *Torre Alianza (Rushbet and Command Alkon)*, *Rivana Business Park (Autolarte)*, *Atrio tower (Jumbo)*, and *Fijar93 (Oxxo)*.

24,000 m2 of leasable area were retained during the third quarter, for a total year-to-date retention of 168,000 m2 and a 97% renewed contracts ratio. The most important placements in the quarter –close to 5 thousand m2– took place in the corporate and commercial categories, for a total 23 thousand m2 placed during the year.

### **Slide # 13 - Corporate**

Slide # 13 shows that the corporate category's physical vacancy decreased 80 basis points, after close to 660 m2 were rented by *Jumbo* in the *Atrio* building for its premium format, the same format opened this year at *Atlantis Plaza*. We also placed 845 m2 with *Command Alkon* and another 845 m2 with *Rushbet* in *Torre Alianza*, located at one of the chief office corridors in Bogotá; 339 m2 with *Autolarte* in *Rivana Business Park*; and 102 m2 with *Oxxo* in the *Fijar93* corporate building. All of the above placements counterweighted *Itaú's* return of 1,690 m2 from the *Capital Towers* building.

On the other hand, economic vacancy increased 219 basis points given the end of the fine imposed to *Frontera* --as a result of its early termination of the agreement-- and the grace periods granted to the new tenants of *Capital Towers*, *Atrio*, *Torre Alianza*, and *Rivana*, which once completed shall reflect again in a reduction, close to 11.2%, of the economic vacancy.

Additionally, for the third quarter of 2022, traffic in our corporate assets was close to 70%, compared to 2019, a level close to the current presence in the workplace dynamics.

Finally, and in line with the investment commitments acquired, the incorporation of *Megaport* --a corporate asset with over 16,455 m2-- was perfected in last September for an amount of COP 93,600

million. *Megaport's* tenants include multinational *IFF* and *Andirent*, with whom we have achieved a 100% economic occupancy.

#### **Slide # 14 - Commercial**

Slide 14, on the commercial category, shows that physical vacancy decreased by 17 basis points following the placement of 2,850 m<sup>2</sup> with 60 tenants that rented spaces in shopping centers such as *Atlantis*, the *Ideo* design and construction shopping centers portfolio, *Nuestro Bogota* and *Nuestro Cartago*, *Plaza Cali*, *Cucuta Garden*, and *Central Plaza*. The placements concentrated in the restaurants, retail, and health services sectors, where tenants such as *Sanación y Vida IPS*, *Hugo Boss*, *La Ponderosa*, and *Audifarma*, among others, stand out.

Economic vacancy during the quarter decreased by 16 basis points driven by the end of the grace periods granted for the square meters rented in the second quarter of 2022 to *Éxito* in the *Nuestro Cartago* shopping center and *McDonald's* in *Atlantis Plaza*, among others. It is worth noting also, that the shopping centers' good sales performance during the third quarter has contributed to the portfolio's variable income.

On the other hand, traffic in the shopping centers category during the 3Q 2022 increase by 122% compared to the average traffic for 2019. Moreover, our tenants' sales per square meter increased 7% compared to the same period of 2021, showing the good dynamics that this category continues to experience.

#### **Slide # 15 - Logistics**

Slide 15 shows that physical vacancy increased by 104 basis points, driven by the termination of the agreement with transportation company *Coordinadora* for the *Yumbo* warehouse, whose area corresponds to 9,238 m<sup>2</sup>. This generated an effect of 61 basis points on the category's economic vacancy as this is a packaging warehouse that, given its simpler characteristics, tends to have a rent per square meter below the average for the category.

### **Slide # 16 - Specialized and Hospitality**

Slide 16, on the Hospitality category, highlights the performance of the university residences whose average occupancy stood at 64% during the last 6 months, translating into more than 1,300 occupied beds. Occupancy at the end of September 2022 was 87%. In addition to the above, income amounted to a 115%, driven by the good dynamics and results that this asset has been showing since 2021 after the students began, again, to attend in person to the universities.

On the other hand, *Hotel Calablanca* showed a 122% income and an average occupancy during the quarter close to 50%.

In turn, the health and education assets continue to provide stability to the general context of the portfolio, thanks to their leasing schemes under which they remain fully occupied and the long-term relationships built with our tenants.

## **FINANCIAL RESULTS**

### **Slide # 18 - Financial Figures**

We will now discuss the portfolio's financial management under slide 18. As we mentioned at the beginning of the session, significant recoveries are evident in all ratios.

At the end of the third quarter of 2022, the vehicle's operating income showed a 22% increase compared to the same period of 2021, exceeding COP 150 thousand million. This was largely driven by the higher revenues from the variable leasing under the commercial category --which increased 69%-- and the physical vacancy's reduction from 7.3% to 6.0%. Furthermore, the accumulated operating income for the year amounted to COP 444,698 million, representing a positive variation of 25%, compared to 2021.

The operating income (NOI) registered a 21% growth during the 3Q, compared to 2021, and also increased by 25% during the first nine months of the year. In terms of profitability, the operating margin increased by 27 basis points, reaching 82.2% for the year.

In line with the above, the EBITDA grew 26% during the 3Q 2022 and 29% for the year-to-date, reaching an EBITDA margin of 65.5% for the first nine months of the year: an increase of 210 basis points above the margin registered for the same period of 2021.

Net receivables have consistently declined after the pandemic. This metric consolidated at COP 5,056 million for this third quarter, representing a receivables turnover of 3 days and a receivables ratio as a proportion of the last twelve months' revenues of 0.85%.

Finally, inflation has increased from 2.9% to 9.34% during the last 9 months, affecting the vehicle's average debt service. The lease agreements will incorporate this increase, mainly in 2023, partially offsetting the debt service's increase. Accordingly, considering the cash flow distribution payable on next November 16, which will be COP 256 per security, this year a total COP 4,119 per security will be delivered, equivalent (prior to the split) to COP 411,870 per security, which represents an estimated dividend yield of 3.6% below the 4.8% distributed in 2021.

### **Slide # 19 - Indebtedness Q3 2022**

Slide # 19 shows that the indebtedness level at the end of the third quarter was close to COP 3 billion, with 85% corresponding to long-term debt. In this context, the indebtedness level measured as the debt-to-assets ratio remained close to 36%.

The debt portfolio's composition per rate closed the third quarter with 13% corresponding to fixed rate, 44% to the BRR, and 44% indexed to the CPI. Moreover, the debt service during the year corresponded on average to 9.95%, nearly 490 basis points above that for 2021, as a result of the increases of the inflation and the Colombian Central Bank's intervention rate. Accordingly, the long-term financing rate, which incorporates the market expectations, stood at 8.5%, above the 7.37% registered in 2021. It is



important to mention that, according to a survey made by the Colombian Central Bank, the analysts' expectations as to the closing inflation for 2022 is 11.9%, while for 2023 is 6.93%. To this extent, the evolution of the inflation will mark the behavior of the debt service, any readjustments to the lease agreements, and the Distributable Cash Flow for 2023.

## **OUTLOOK 2022**

### **Slide # 21 - Projections for PEI's Portfolio by the End of 2022**

Finally, in Slide 21 we wish to confirm our estimates, shared during the results conference call on the 2Q 2022: For the physical vacancy we ratified a ratio between 5.5% and 6.5%. We estimate the revenues to close between COP 595 and COP 615 thousand million, with an NOI margin ranging between 82.5% and 83.5%. As for the cash flow yield, we expect it to close in a range between 3.6% and 3.7%, while the dividend yield is expected to be between 16% and 17%. It worth noting that the market analysts, under the Colombian Central Bank's survey, expect inflation to close around 11.9% and 6.93%, respectively, for 2022 and 2023. Considering the above, we believe that the inflation's evolution during the next 18 months will mark the level of any readjustments to both the lease agreements and the interest rates, with the later, in turn, affecting the financial expense and, consequently, the Distributable Cash Flow's performance.

I now give the floor, again, to Jairo Corrales, who will inform you about the progress made in connection with fund's strategy. Go ahead Jairo.

## **STRATEGIC PROGRESS**

### **Slide # 23 - Divestment of Assets**

Thank you, Andrés. Slide # 23 shows the progress made in connection with the divestment strategy. It is important to mention that this strategy is inherent to the real estate funds' business model and aims at validating the commercial appraisal of the assets, by materializing the appreciation earned since their acquisition, reducing the indebtedness level, and providing investors with cash flow that is additional to that recurring from the operation.

Now, on the progress made in connection with this strategy --which began about two years ago--, please note that a selection of the portfolio assets meeting the requirements is being updated. Conversations with potential buyers are ongoing and, as soon as we have binding contracts and detailed information on the relevant transactions, we will be letting you know through the relevant information channels.

### **Slide # 24 - Sustainability**

Slide # 24 refers to progress made on sustainability matters:

- Eco-efficiency diagnoses have been carried out for several of the portfolio assets, reaching 667 thousand m2 with a diagnosis, equivalent to 58% of the portfolio's GLA.
- The climate change risk matrix aims at understanding the main risks faced by PEI in connection with climate change. This year we designed the work plan necessary to prepare the risk matrix during the first semester of 2023, in line with the Task Force On Climate-Related Financial Disclosures (TCFD).
- We made an alliance with Best Buddies In September, to hire a "Soul Friend" in Atlantis, who supports the customer service area.
- In line with the communications and marketing plan, the sustainability section was implemented in PEI's website. Here, investors will find information on the company and the vehicle's Corporate Sustainability Model.
- The Colombian Stock Exchange (BVC) awarded its IR Recognition to PEI, as an issuer that voluntarily adopted better levels of information disclosure in order to strengthen its relationship with investors.

This concludes the section on the progress made in connection with the fund's strategies and the results conference call for the third quarter of 2022. We will now begin with the Q&A section.

### **ARKADIN OPERATOR**

Thank you. We will now begin with the Q&A session. If you have any question, please press star 1 on your phone or write it via chat.

## **Q&A SESSION**

Andres Felipe Ruiz:

As always, we appreciate your participation in this conference where, for the last hour and a half, have presented the fund's results by the end of the third quarter of 2022. We look forward to seeing you in February, to discuss the results for the fourth quarter of 2022.

May all of you have a good day.