

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

HOTEL\*.MX - Q4 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2019 / 6:00PM GMT



FEBRUARY 22, 2019 / 6:00PM, HOTEL\*.MX - Q4 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

## CORPORATE PARTICIPANTS

**Enrique Gerardo Martínez Guerrero** *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO*

**Francisco Medina Elizalde** *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

**Francisco Alejandro Zinser Cieslik** *Grupo Hotelero Santa Fe, S.A.B. de C.V. - Executive Vice Chairman*

**Maximilian Zimmermann Canovas** *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

## PRESENTATION

### Operator

Excuse me everyone, we now have our presenters in conference. (Operator Instructions) It is now my pleasure to turn the conference over to Max Zimmerman, Investor Relations Director for Grupo Hotelero Santa Fe.

---

**Maximilian Zimmermann Canovas** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

Good afternoon, and thank you for joining us today everyone. My name is Max Zimmerman, Investor Relations Director of Hotels, and I would like to welcome you to the company's earnings webcast for the fourth quarter of 2018. On the line, we have Francisco Zinser, our Executive Vice President; Francisco Medina, our CEO; Enrique Martinez, our CFO; and Alberto Santana, our Administration Director. The presentation slides we will follow during the call are available on our webcast, which you can find in our Investor Relations section of our website. Before we begin, I would like to remind you that this call is being recorded and that information discussed today may include forward-looking statements regarding the company's financial and operating performance.

Our projections are subject to risk and uncertainty, and actual results may differ materially based on a number of factors. Please refer to the detailed notes in the company's press release regarding forward-looking statements. At the end of the presentation, we will open the call to any questions you may have. We will now begin with the presentation. Please go to Slide 2, and I will pass the mic to Francisco Zinser.

---

**Francisco Alejandro Zinser Cieslik** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - Executive Vice Chairman*

Thank you very much, Max, and once again, thank you all of you for joining our webcast. As you can see, 2018 was a year of solid growth and the fourth quarter was absolutely no exception. We posted solid revenue and EBITDA growth of 31% and 28% respectively, for 2018, slightly above our updated guidance for the same year. We also recently announced our 2019 guidance in our Hotel Day, which was held a couple of weeks ago. We expect the revenue to grow 13% to MXN 2.33 billion -- MXN 2,330 million, sorry. And EBITDA growth, 15% to MXN 780 million. So now I would like to pass the call to our CEO Francisco Medina.

---

**Francisco Medina Elizalde** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

Thank you, Pancho. Now let me complement with some additional data points. Tourism in Mexico grew at a lower pace than in the past years, but we still have solid underlying fundamentals. In 2018, the World Travel Organization posted that Mexico reached sixth place for the country that received most international travelers, marking a new historical milestone. Moreover, international travelers in Mexico increased 5.5%, reaching 41 million. Also, income from international tourism increased 5.5% to \$22 billion. This, despite the sector being affected by an economic slowdown attributed to the election year in the country and the abnormal amount of duration of sargassum in Cancun and Mayan Riviera. At Hotel, we remain committed to becoming the leading hotel company in Mexico. The extraordinary management team and the associates we have assembled and the strategy we have aligned will allow us to continue grow efficiently and profitability in the long run. As always, we are thankful for the trust and support of our shareholders.



## FEBRUARY 22, 2019 / 6:00PM, HOTEL\*.MX - Q4 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Moving now to our quarterly operational results. Please go to Slide 3. Total revenue was MXN 543 million, up 23% compared to fourth quarter '17, driven by a 10% increase growth in Room Revenue, 36% growth in Food and Beverage revenue and 56% in other revenue. EBITDA was MXN 173 million, up 18% compared to fourth quarter '17. Regarding company-owned Hotel, RevPAR decreased by a 9%, driven by a 3.5% percentage point decrease in occupancy combined with a 3.5% decrease in ADR. This is mainly due to the 16% increase in the room inventory and the different location of ADR in Cancun for the model change of EP to all-inclusive. Room revenue growth was driven by Reflect Krystal Grand Los Cabos, Nuevo Vallarta and Krystal Grand Suites Insurgentes. And the performance of stabilized hotels including Hilton Vallarta and Reflect Krystal Grand Cancun.

Food and Beverage revenue increased 36% to MXN 199 million in fourth quarter '18, driven by the incorporation of the Krystal Grand Suites, Los Cabos and Nuevo Vallarta, which are in the early stages of stabilization, of the performance, of the stabilized hotels.

Other income, which includes among other items, event room rentals, parking, laundry, telephone and leasing of commercial spaces, increased 77%, driven by the performance of Hilton Vallarta, Reflect Krystal Grand Cancun and Los Cabos.

Third-party Hotel management fees increased by 17% due to the combined effect of a 7% increase in the number of rooms under operation and 10% increase in the RevPAR during this period.

Now please go to Slide 4. Moving on to our key operational metrics. On a consolidated level this quarter, we posted a 3% decrease in RevPAR, which is comprised of an ADR decrease of 1% and 1% reduction in occupancy. The lower RevPAR is attributable to the internal and external factors mentioned in our third quarter 2018 report, including AMResorts, sargassum and the U.S. travel volume. Besides what I just mentioned of the increase of room inventory and the different location of ADR for the change of the model from EP to an all-inclusive. Now please move to Slide 5, and I will hand the call over to Enrique Martínez, which will guide you through our financial results.

---

### **Enrique Gerardo Martínez Guerrero** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO*

Thank you, Paco. EBITDA in the quarter reached MXN 173 million, up 18% increase compared to fourth quarter of 2017. This result was driven by the combining effect of revenue growth and inclusion of Krystal Grand Suites and Krystal Grand Nuevo Vallarta as company-owned hotel and the performance of the Krystal Grand Cancun. EBITDA margin in the quarter was 31.9% compared to the 33.2% in fourth quarter '17.

Moving on the operating income, we reached MXN 112 million compared to MXN 79 million in fourth quarter '17. The increase was driven by the factors I just mentioned combining with lower Hotel development and operating expenses. In terms of net income, we went from a loss of MXN 170 million in fourth quarter '17 to a gain of MXN 7 million in fourth quarter '18, driven by higher income from operations. Lower CapEx losses, lower financing cost and lower income taxes compared to fourth quarter '17.

Now please move to Slide 6. Net debt was MXN 2,757 million at the end of fourth quarter '18, which represents a total debt-to-EBITDA last 12-month ratio, up 4.1x. Total debt is mostly U.S. dollar denominated, 85% to be exact. As this branch of the debt, an average cost of 5.7%, while the remaining portion of 15% is peso denominated with another cost of 11.7%, coming a competitive overall debt mix of 6.6%. Additionally, I would like to mention that over 91% of debt maturities are long-term. The Mexican peso depreciated 4.5% by the end of the quarter and have a negative impact in our financial cost, also our short U.S. dollar position by the end of the quarter was \$121 million, equivalent to MXN 2,370 million. Now let's move to Slide 7, and I will pass the call back to Pancho who will finish off the call.

---

### **Francisco Alejandro Zinser Cieslik** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - Executive Vice Chairman*

Thank you, Enrique. And thank you, Paco. I would like to highlight our fee-related announcement and begin with (inaudible). This is a joint venture that we have announced for a 300-room (inaudible) to resort and spa. It's a fantastic location in Tulum, which got it's own beach club. And this is going to be done with AMResorts under the same model that we have presented today under the Reflect plan. We expect to begin construction in the second quarter of 2019. The key excesses contribution will be up 25% of the equity, which is about \$12 million and the Hotel is scheduled to open in the second half of 2021. This Hotel will certainly help the revenue flow of dollar or foreign denominated currency, not only because of the importance of the international states, but because of the alliance with AMResorts. The second announcement is an physical space stake. In



## FEBRUARY 22, 2019 / 6:00PM, HOTEL\*.MX - Q4 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

the franchise agreement that we signed with Hyatt for the year -- Hyatt Centric Campestre Leon, previously known as Cleviá Grand Leon. This hotel is the (inaudible) property with 140 rooms and is expected to be rebranded by the end of the first quarter of this year or very early beginning of the second quarter. This is going to be the first Hyatt Centric hotel in the country, and I would like to point out that the Hyatt Centric Brand has had very good results and very good market reception in the markets where it operates globally.

Please go to Slide 9. Our current last analysis before we go over to the Q&A, is a second project that we signed with Hyatt for the Hyatt Regency Insurgentes Mexico City, previously known as the Krystal Grand Insurgentes as 7/24. This Hotel is expected to open in the second quarter of 2020, as you probably know because we have released this information as the Grand Tourism Hotel with 250 rooms which is located right across the street from the Polyforum Siqueiros and the World Trade Center and is going to be a mixed use conflicts, which will basically have the 250 hotel keys and we managed experience area a long state residential area apartments, parking and is going to be the second Hyatt Regency to be open in Mexico City. The previous one is in the Polanco district. So now I would like to open the call for questions and thank you for going through with us in our presentation.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) And we have no questions at this time. I would now like to turn the conference back over to Francisco Zinser for closing remarks.

#### Francisco Alejandro Zinser Cieslik - Grupo Hotelero Santa Fe, S.A.B. de C.V. - Executive Vice Chairman

Thank you, thank you very much. We would like, again, as our CEO mentioned, to thank all of you for the trust and the trust that you have placed on us and our company, and we affirm our commitment to maximize your investment. And we would also like to thank all of our associates for their constant efforts, without which this company would not be possible. Have a great weekend everyone, and thank you for joining.

#### Operator

Ladies and gentlemen, this concludes today's conference. You may now disconnect.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.