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# EDITED TRANSCRIPT

HOTEL\*.MX - Q1 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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## CORPORATE PARTICIPANTS

**Max Zimmermann** *Grupo Hotelero Santa Fe - Investor Relations Director*

**Francisco Zinser** *Grupo Hotelero Santa Fe - CEO*

**Francisco Medina** *Grupo Hotelero Santa Fe - Deputy CEO*

**Enrique Martinez** *Grupo Hotelero Santa Fe - CFO*

## CONFERENCE CALL PARTICIPANTS

**Hector Vazquez** *GBM - Analyst*

## PRESENTATION

### Operator

This is a recording of the Max Zimmermann conference with Grupo Hotelero Santa Fe on April 21, 2017 at noon central time.

Ladies and gentlemen, thank you for your patience in holding. We now have your presenters in conference.

(Operator Instructions)

It is now my pleasure to introduce today's first presenter, Mr. Max Zimmermann.

**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

My name is Max Zimmermann, Investor Relations, Director of Hotels, and I would like to welcome you to the Company's earning webcast for the first quarter 2017.

I am here with Francisco Zinser, our CEO; Francisco Medina, our Deputy CEO; Enrique Martinez, our CFO and Alberto Santana, our Administration Director.

Before I 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 risks and uncertainties 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. The presentation slides, which we will follow during the call, are available on our webcast, which you can find in our investor relations sections of our website on a link.

At the end of the presentation, we will open the call to any questions you may have.

We will now begin with the presentation. I will turn the call over to our CEO, Francisco Zinser.

**Francisco Zinser** - *Grupo Hotelero Santa Fe - CEO*

2017 came in as a good start for hotels. The results have exceeded our expectations, especially considering that Holy Week last year was in the month of March and this year in the month of April.



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Tourism continues to be very robust with strong underlying fundamentals. Increase in international and national travelers is reported by operators of airports, and international visitors grew by 9% compared to 2015.

Moving on to our quarterly operational results, I will ask Paco Medina to take the microphone. Please go to slide 2.

### **Francisco Medina** - *Grupo Hotelero Santa Fe - Deputy CEO*

During first quarter '17, total revenue increased 20% to MXN387 million driven by an 80% growth in gross revenue, 19% percent growth in food and beverage revenue, 24% in other revenue and 36% in management fees related to third party hotels.

Room revenue growth was driven by the performance of the Krystal Satellite Maria Barbara and Krystal Urban Cancun, which (Inaudible - microphone inaccessible) and the solid performance of [accelerated] hotels including Krystal Grand Punta Cancun.

In the quarter, the opening of the Krystal Grand [Ascado] and Krystal Grand Nuevo Vallarta slightly helped our results as they were incorporated by the end of March.

Food and beverage revenue increased 19% to MXN105 million in first quarter '17. (Inaudible - microphone inaccessible) half of this was attributed to the [hotels license field presented] mainly in food and beverage outlets at the Krystal Grand Punta Cancun and Krystal Puerto Vallarta as well as in Krystal Guadalajara.

The remaining percentage was due to the performance of Company-owned hotels [in the salutation statement] and inclusion of the Krystal Urban Guadalajara, which was not [open to the public] until mid-March 2016.

Management fees related to third party hotels increased by 26% due to a 10% growth in the number of months under operation during these periods. [Best part] increase of 10% was driven by the 12% increase in [ADRs] and two percentage points decrease in occupancy as a result of the recent incorporation of (Inaudible - microphone inaccessible).

Now we go to slide 3. Moving on to our key operational metrics, on a Company basis level, this we posted an [APR] growth on April 10, which is comprised of an [APR] growth of 9% in a slightly longer (Inaudible - microphone inaccessible) high comparable base due to the Holy Week in first quarter '16, which this year was in April.

Now please move to slide 4, where I will pass on the call to Enrique Martinez, who will guide you throughout the financial results.

### **Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

[Everything reported was] MXN151 million, a 30% percent increase compared to first quarter '16.

This result was driven by the combined effect of revenue growth, the inclusion of the Krystal Urban Guadalajara, the Krystal Grand Ascado and the Krystal Grand Nuevo Vallarta as a Company owned hotel and [for some of the rate]. And Krystal Pachuca as a third party hotel to the portfolio.

EBITDA margin for the quarter was 38.9%, slightly lower from our first quarter 2016 EBITDA margin of 41.1%. This way mainly driven by highly comparable base due to the Holy Week in first quarter 2016, which this year was in April combined with the inclusion of the [hotel] brand Los Cabos and Krystal Grand Nuevo Vallarta, which currently [kept] lower margin.

Keep in mind that we acquired these two hotels at the end of February of this year.



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Now let's move to slide 5. Moving on to the net income, we post MXN185, million which is more than double than our first quarter 2016. This increase was driven by a foreign exchange gain and higher income from operations. The FX gain was driven by the effect of the mark to market valuation effect of a lower dollar base -- dollar peso exchange rate applied to our dollar denominated debt.

Now, please move to slide 6. Net debt MXN422 million at the end of first quarter '17, which represents our total debt to EBITDA last 12 months ratio of 0.9 times.

Total debt of which 81% is US dollar denominated (Inaudible - microphone inaccessible) up 12.1% and 90% is peso denominated. You then have a cost of 9.1%. Additionally I would like to mention that over 90% of debt maturities are long term.

The Mexican peso appreciated 9.5% by the end of the quarter, that had a positive impact on our financial cost outside area management with the FX gain. Also, our [short] US dollar position by the close of the quarter was \$36 million, [accumulating] to MXN694 million.

Now, please move to slide 7 and I will pass the call back to Max Zimmermann, who will talk about our new contract and 2017 expansions.

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### **Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

Let me start by mentioning our junior management contract that we signed this quarter. The first one is Krystal Pachuca, which is 124 room hotel which we are already operating since February. This hotel is owned by a third party and is adjacent to the central bus station, close by to the historic city center.

The second one is the AC by Marriott, Distrito Armida, in Monterrey which will be a 168 room hotel that is under construction at a real estate development in the heart of Valle Oriente, where many corporate offices, business and service providers are located. With this contract, we are reaching 10 hotels under third party management contracts that has been added to the Company's portfolio, a clear sign of trust from real estate investors on the hotels operating capacity.

Now let me briefly mention our two expansions that we'll be opening this year.

The first expansion is at the Krystal Grand Punta Cancun, where we are adding a tower with 100 suites, which represents an increase of 34% of existing rooms in inventory. We expect this tower to open in the third quarter of this year.

The second expansion is at the Krystal Puerto Vallarta where we are adding 192 suites, which represents an increase of 74% to the existing room inventory. We expect the new suites to open in the fourth quarter of this year.

With that, I would like to pass the call back to Francisco Zinser.

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### **Francisco Zinser** - *Grupo Hotelero Santa Fe - CEO*

It is important to remind that in February we closed the large transaction in which we acquired a 50% stake of two hotels in Los Cabos and Nuevo Vallarta comprising 933 rooms.

These, as we are already [informed], will be converted to the Krystal Grand brand.

And both locations are strategic for the Company since we were not present and are very relevant within the tourism destinations in Mexico. This will strengthen our portfolio and give us much more robust presence in the main resorts in the country.

This will also bring additional dollar denominated revenue and [with these projects] and the ones mentioned by Max, we have 23 hotels with 6,514 rooms.



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In terms of our expectations for the year, we are confident to achieve our previously released 2017 guidance of 40% and 45% growth rates for both revenues and EBITDA respectively.

This growth will be mainly fueled from all the before-mentioned projects.

Please go to slide 9. This is an important slide. Before we open the questions, I would like to highlight this fact relating to our valuation. We have invested MXN3.1 billion CapEx, which will start producing EBITDA as our expenses and developments are inaugurated, large part of them which will be later this year. Currently, this CapEx represents 51% of our property, furniture, and equipment.

With that said, I would like to open the call for questions and answers.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions)

Hector Vazquez with GBM.

#### Hector Vazquez - GBM - Analyst

Congratulations for the [results this by being Easter week set].

My first question is about the balance sheet. I was wondering if you could give me more detail about the 1.2 billion reported in the non-interest bearing liabilities. I understand that this amount is related to the recent [competition] but was not reported as interest free liability.

And the second question is, what is the remaining CapEx regarding the last acquisition?

#### Francisco Zinser - Grupo Hotelero Santa Fe - CEO

Just to clarify, remaining CapEx meaning firepower?

#### Max Zimmermann - Grupo Hotelero Santa Fe - Investor Relations Director

No, I think -- let me take [the opportunity]. You're referring to how much of the \$160 million acquisition is still pending to be invested in Nuevo Vallarta, correct?

#### Hector Vazquez - GBM - Analyst

Exactly.

#### Max Zimmermann - Grupo Hotelero Santa Fe - Investor Relations Director

OK. So in terms of your first question and the line you mention in our balance sheet, that is related to the debt from the acquisition of Los Cabos and Nuevo Vallarta, which we currently have that debt with the owner. But in the following months will be converted into bank debt once we have set the terms and conditions and signed that debt.



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So that's the reason why that increases but I think for the next quarter you should see that normalized in terms of our bank debt.

And in terms of the second question, we are - we still have to invest around 25% of the full value of the acquisition, so that means around half of one of the hotel in Nuevo Vallarta, for the expansion of the additional rooms which will be available by November when we do the change of names to Krystal Grand Puerto Vallarta.

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**Hector Vazquez** - *GBM - Analyst*

Perfect, thank you very much, Max.

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**Operator**

[Jorge Huther], GBM.

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**Unidentified Participant**

Congratulations on the results. I have two questions. First, in the report we can see that revenues denominated in US dollars have shown an increment but what is the percentage of revenues denominated in this currency that the Company expects to have when the two new beach hotels fully stabilize? --

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

If you want, we can take care of the first question. This quarter along with - well, this is the quarter that has the highest generation of US currency or foreign currency of all the year.

The next one would be the fourth quarter and the rest of the quarters are more stable in terms of more domestic travel.

So we will see an increase in the dollar denominated revenues but we still cannot disclose how much we think that would be, but it's definitely going to increase due to the addition of these 933 rooms.

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**Unidentified Participant**

Perfect. And my second question is - sorry.

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

I'm sorry, Jorge, I think we mentioned in when we closed acquisition that an important part of the revenues of these new hotels is going to be in US dollars.

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Yes, we calculated about 40% to 45% of the blended portfolio of the two hotels will be dollar denominated revenue.

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

Excellent, excellent. Sorry for the interruption, Jorge.

**Unidentified Participant**

Perfect, don't worry. And my second question is, Krystal Grand Nuevo Vallarta began operations with 215 rooms.

**Francisco Medina** - *Grupo Hotelero Santa Fe - Deputy CEO*

This is Francisco Medina. We are [taking triage] with total remaining rooms compared to the 215 to the 479 at the end of the -- of October. So we start with the new inventory -- new inventory in the first of November.

**Operator**

(Operator Instructions)

[Guillermo Viago] with Santander.

**Unidentified Participant**

I just wanted to know from the 96.5 million of serving SG&As, could you give us attribution how much was related to management including the stock options and the increase? And how much was related to the incorporation of, Guadalajara, Los Cabos, and Nuevo Vallarta?

**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

I'm sorry could you just repeat it, I heard the 96.5 --

**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Yes, at the beginning of our --

**Unidentified Participant**

Yes, just from the SG&A and 96.5 million, could you give attribution? How much is related to the stock options and how much is related to the increasing the team, and how much is related to the incorporation of Guadalajara, Los Cabos and Nuevo Vallarta?

**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

The increase of administrative expense, you mean?

**Unidentified Participant**

Yes, breakdown.



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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

The larger part would be the care program for the share program for the key executive.

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**Unidentified Participant**

Yes.

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

You would basically -- it was basically -- do you want to take this, Enrique?

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Yes. It's been -- let's talk about these increases. The increases, let me see --

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

Due to [expenses] related to executive stock plan, increases related to striking the management team and new corporate positions, which did not exist in the same quarter of last year, this is a marginal increase. It's not a significant increase because as you know the hotels have their own staff at the hotel level. So it's just a couple of sales people and it's not relevant. The inclusion of Krystal Urban Guadalajara, which was not last year and this year is in full effect on all the administrative --

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Yes, it's important to mention that in the Krystal Urban Guadalajara last quarter we had the first month of operation of the hotel, where they were still not too many expenses. However now after one year of stabilization where we have a full operating hotel for three months, that I think also represents --

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

Yes, it's mainly explained by the share program and the inclusion of hotels, which obviously did not have expense last year.

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Correct. And also --

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**Unidentified Participant**

And what is the percentage of the share program of the stock options?

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

If you want we can follow up with that -- with that question Guillermo, let us just get into the details we have at hand and we'll call you a little bit later.



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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

The figure is around the \$6 million --

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

MXN6 million amount is the amount of the stock options for employees.

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**Unidentified Corporate Representative**

(Inaudible - microphone inaccessible)

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**Operator**

Hector Vazquez with GBM.

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**Hector Vazquez** - *GBM - Analyst*

It's me again. My question was related to the stock option and it was already answered, thank you very much.

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

OK, thank you. It's not a stock option plan, just to be clear. It's a stock plan. It's not options, it's a full stock plan.

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**Hector Vazquez** - *GBM - Analyst*

OK, perfect.

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**Operator**

(Operator Instructions)

[Christian Constandes] with GBM.

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**Unidentified Participant**

Just to clarify, of the MXN1 billion increase in the accumulator liabilities line on the balance sheet. How much will that be converted to that?

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Well basically the total amount.

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**Francisco Zinser** - *Grupo Hotelero Santa Fe - CEO*

The total amount of the valuation right?

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Yes.

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**Unidentified Participant**

OK, and that will be in U.S. dollars?

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

We're still analyzing. We are -- in the case of Los Cabos, it will definitely be in US dollars, and we're still finalizing our analysis for the [Los Cabos] and Nuevo Vallarta, but probably it will be --

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**Unidentified Participant**

You will have like around 2.5 billion invested?

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**Enrique Martinez** - *Grupo Hotelero Santa Fe - CFO*

Total debt, yes.

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**Operator**

At this time we have no further questions. I'd like to turn it back to our presenters for closing comments.

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**Max Zimmermann** - *Grupo Hotelero Santa Fe - Investor Relations Director*

We would like to thank all of our investors and all of you for joining us today. For the trust you have placed in us, and we affirm our commitment to maximize your investments and everybody else's investment.

We would also like to thank all of our associates for their constant effort.

Have a great day everyone, thank you for joining.

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**Operator**

Ladies and gentlemen, that concludes today's presentation. You may disconnect your phone lines, log off your webinars and thank you for joining us this afternoon.

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