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HOTEL*.MX - Q1 2020 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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

CONFERENCE CALL PARTICIPANTS

Jorge Lagunas *Apalache Análisis - Co-Director of Research*

Martín Lara Miranda *Global Research - CEO & Founding Partner*

PRESENTATION

Operator

Excuse me, everyone. We now have our speakers in conference. (Operator Instructions)

It is now my pleasure to turn the conference over to Max Zimmermann, Investor Relations Director for Grupo Hotelero Santa Fe. Please go ahead, sir.

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

Good afternoon and thank you for joining us today. My name is Max Zimmermann, Investor Relations Director of HOTEL, and I would like to welcome you to the company's earning webcast for the first quarter of 2020.

On the line, we have Francisco Zinser, our Executive Vice President; Francisco Medina, our CEO; Enrique Martínez, our CFO; and Alberto Santana, our Administration Director.

We are all connected from different locations, so please bear with us. The presentation slides we will follow during this call are available on our webcast, which you can find in our Investor Relations section of our website, or you can also download it from 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 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.

At the end of the presentation, we will open the call to any questions you may have. We will now begin with a presentation, and I will pass the call to Francisco Zinser. Please move to Slide 2.

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

Thank you, Max. And once again, thank you, everyone, for joining our webcast. Let me start off by mentioning our press release from this morning. We have announced that our Board has unanimously expressed support in order to be financial and operationally be prepared for the recovery of our industry. And thus, has agreed that it's necessary, a shareholders' meeting could be convened to propose a capital increase, of which conditions and details regarding the use of proceeds would be submitted in this shareholders' meeting if it were to be convened.



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Moving on, and in order to have our call as seamless as possible -- we are all in different locations, I will turn the mic to Max, who will continue with the rest of the presentation. After which all of us will be available for the Q&A.

Thank you, Max. Please go forward.

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

Thank you, Pancho. So please move to Slide 3. In the fourth quarter, up to the second week of March, results for the company were aligned with internal expectations. For the remainder of March, however, the industry and world economy started to show significant slowdown due to the COVID-19 pandemic.

Impacts were first apparent at urban hotels, where demand decreased significantly in an exceptionally short period of time. Resorts behaved differently, showing signs of slowdown afterwards and declining at a slower pace, but eventually reaching the same very low occupancies as urban destinations. Within this environment, it is difficult to have a clear view of what was happening to bookings, which were characterized by a sluggish booking pace.

As of today, we have 5 properties in our portfolio, which are the Krystal Urban Ciudad Juarez, Krystal Urban Guadalajara, Krystal Satelite María Barbara, all of which are 100% owned, and also the Hampton Inn Suites Paraíso, Tabasco and Krystal Urban Aeropuerto, Mexico City, which are third-party-owned hotels operated by ourselves. These hotels are open and in operation, representing around 11% of rooms, all in urban destinations. Although these hotels have exceptionally low occupancies, they are generating enough revenue to reach our breakeven point at an operational level. The rest of the hotels in our portfolio are temporarily closed. In some cases, as in Mexico City, the local government has instructed companies to close hotels under certain conditions, which, in our case, has not affected open properties from our portfolio in this city.

We continue to take all the necessary measures in our hotels to prevent the risk of infection of our employees and customers through strict sanitation protocols. As of today, we have no clarity as to when the federal and local governments or general conditions will allow us to resume operations in the temporarily closed properties, though we expect to do so as soon as we have authorization and the conditions allow. On the bright side, we are ready to open our properties with short notice in order to respond as quickly as possible. We are also working on a complete reopening plan for our hotels that will include marketing, operations, new disinfection protocols and determining new tourism trends and adapting to them as rapidly as possible. We hope that recovery starts in the third quarter of this year and that we can gradually build occupancy and rates, thus reaching our breakeven point, which is between 20% and 30%, depending on the hotel and location. That's with current ADR and depending on the property end markets.

Financially, we have implemented a variety of initiatives in order to preserve our working capital and lower our monthly operating expenses. The measures we have implemented in a bid to avoid laying off team members and to reduce the company's expenses, among other purposes, include: first, the reduction of nonpriority expenses; second, wage reductions at all levels in both corporate and operational structures, averaging approximately 50%; three, lowering operational costs and expenses at properties that remain open; and four, deferring all nonessential CAPEX.

We have been in close contact with our financial creditors, negotiating to obtain a period with no interest and amortization payments in order to protect our cash position. As soon as we receive conditions regarding these deferrals, which we expect shortly, we will inform them to the market. Taking everything into account I just mentioned, we are in a good financial position for the coming months.

Now please move to Slide 4. In terms of our quarterly results, revenues totaled MXN 586 million, down 6% compared to the first quarter of 2019. EBITDA was MXN 156 million in the quarter, down 26% compared to the same quarter of last year. Regarding company-owned hotels, RevPAR decreased by 12%, due to a 4.2% decrease in ADR and a 5.4 percentage point decrease in occupancy.

Room revenue decreased by 11%, and Food and Beverage revenue decreased 6% to \$228 million in the first quarter of 2020. Other income, which includes, among other items, event room rentals, parking, laundry, telephone and leasing of commercial spaces, increased 15%. And third-party hotel management fees increased by 10%, driven by a 31% increase in the number of rooms under operation, which compensated for a lower RevPAR in this segment.



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Now please move to Page 5. Moving on to our key operational metrics. On a consolidated level, this quarter, we posted a 16% decrease in RevPAR, which is comprised of an ADR decrease of 5% and a decrease in occupancy of 8 percentage points. The lower RevPAR is attributable to external factors we just mentioned.

Now please move to Slide 6. EBITDA in the quarter reached MXN 156 million, as I just mentioned. This result was driven by the factors we just mentioned, including the COVID-19 pandemic. EBITDA in -- margin in the quarter was 26.7% compared to 33.9% in the same quarter of last year.

Moving to operating income, we reached MXN 86 million compared to MXN 151 million in the first quarter of 2019. In terms of net income, we went from a gain of MXN 106 million in the first quarter of 2019 to a loss of MXN 606 million in the first quarter of 2020. This is attributed to the FX loss as the Mexican peso depreciated 29% in the quarter.

Now please move to Slide 7. Net debt was MXN 3,064 million at the end of the first quarter of 2020, which represented a total debt-to-EBITDA last 12 months ratio of 5.3x. This was due to the reduction of EBITDA in the quarter, combined with the effect of the mark-to-market valuation of FX applied to our dollar-denominated debt, including the 29% devaluation of the Mexican peso that I just mentioned.

Total debt is mostly U.S. dollar-denominated, 96% to be exact, and this tranche of the debt has an average cost of 4.5%. While the remaining portion, 4% of the debt is peso-denominated with an average cost of 9.6%, having a competitive overall debt mix of 4.8%. Additionally, I would like to mention that over 91% of debt maturities are long term. Our short U.S. dollar position by the end of the quarter was \$123 million and equivalent to almost MXN 3,000 million.

Now please move to Slide 8. Lastly, allow me to provide a quick update on the Hyatt Regency Mexico City Insurgentes. As you know, early last year, we mentioned that the construction process was temporarily suspended. Today, we are pleased to announce that we are finalizing the administrative procedure to resume construction as soon as conditions allow. I would like to highlight and express our gratitude to the more than 3,700 associates who have supported the company unconditionally, not only with their economic contribution but with their tremendous attitude that goes beyond the call of duty. Among other employee initiatives, the Krystal Beach Acapulco is giving out 250 free lunches 4 times a week to the local arts and craft vendors, among others, who have lost any possibility of generating revenue due to the lockdown at that destination.

As always, we are especially thankful for the trust and support of our shareholders in these times, and again, to all our tremendously professional and cooperative teams.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question.

Martín Lara - *Miranda Global Research - CEO & Founding Partner*

I have one question. When do you expect this capital increase to take place?

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

Who's speaking, please?



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Martín Lara - *Miranda Global Research - CEO & Founding Partner*

Martin Lara from Miranda Global Research.

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

Martin, thank you. We do not have a specific date. We do not know if we will need -- or we will see the opportunities to make this capital increase. The only decision that we took is that the Board was unanimously supportive of an eventual capital increase if needed. And once we see the need to do this, we would hold the shareholders' meeting and discuss all the details previously, obviously.

Operator

Our next question comes from Jorge Lagunas with Apalache.

Jorge Lagunas - *Apalache Análisis - Co-Director of Research*

I have a couple of questions. The first one is what strategies will you implement to see your revenue bounce back. What installation and contingency measures are reviewed?

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

We hear you a little bit bad, Jorge. If I -- if we understood correctly, is what strategies we have for the comeback of the operations in terms of commercial terms?

Jorge Lagunas - *Apalache Análisis - Co-Director of Research*

Yes. That's correct.

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

Okay, great. Paco, could you please answer that?

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

Yes, Pancho. We are working right now in a strategic plan called the activation plan summer 2020, which basically includes the strategies and action plan for the relaunching of the properties in terms of marketing and sales, operation and administration details, and also working very hard on the protocols of the sanitation, hygienic in the venues where we are going to live after the COVID-19. This reactivation plan, it's a very complete program that we will be having at the end of the month of April.

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

That is, if we see that that is the correct time.

Operator

And we do now have our next question.



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Unidentified Analyst

First of all, I hope that everyone is doing okay and have good health. I have a couple of questions, Mike -- Max.

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

Could you please just tell us your name?

Unidentified Analyst

Oh, yes. My name is [Jerson Nigea] from [ETF] Capital.

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

Okay.

Unidentified Analyst

So the first one is related to the net loss that you already put around this quarter. Because I remember a couple of quarters ago, I asked you if you are planning to do a hedging strategy or derivative hedging strategy in order to avoid a future movement in the exchange rate, and you told me that you were considering. So my question is right now, as we are living in unprecedented time, and the uncertainty is so high that we don't know how big is going to be this crisis, are you considering a derivative strategy in order to avoid another loss?

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

Enrique, could you please take that question?

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

Yes, we quote a kind of hedging regarding our position in U.S. dollars. When we go to the market, the quotes that we received to cover this situation was around \$8 million. Due to this quote, we took the decision to do not hedge the FX position. Right now, the foreign exchange rate between Mexico and the United States, pesos and dollars, is very uncertain. We believe that as soon as the world comes back with some certainty, right now, we do not have really certainty, which will be coming in the following 2 to 3 months; the quotes are bigger than this ones. We're not thinking in hedge the position that we have right now. The exchange rate at the end of first quarter of 2020 was MXN 24.8 per dollar. Right now, it's currently very close to this quote. It's almost right now to MXN 25. I believe that we already received the hit, and we were assuming that the FX exchange rate needs to come back a little bit.

Unidentified Analyst

Okay. It's really helpful. But my concern is, if we are looking at the big picture, and on November this year, we have the United States election. And then on the following year, June 2021, we have the midterm election in Mexico. So my perspective is, we're going to see more depreciation in the peso or MXN dollar denominated. So UBS just released an analysis from the exchange rate. And one of the main reasons that UBS said, well their projections about even MXN 25.50, MXN 26 per dollar. So why you are -- so just to be clear, you are comfortable right now with the position that you already have?



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

We are comfortable with the position that we have right now. But nevertheless, where we'll be seeking to these quotes to hedge our position. When we hedge this the beginning of this year, the cost that we received was to pay a premium of around \$8 million to hedge all the position that we have in our liabilities. And we took the decision to do not hedge it because we believe that it was smarter to have right now this \$8 million in our cash position either than to be paying this hedge.

Nevertheless, we will be following the quotes. We will be looking to the market, and if we see the opportunity to hedge our position to not have another impact that we had this year, that this quarter, we will resume that.

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

Just one additional note to Enrique's comments is if you look at our quarterly report, we had 45% of revenues, considering that March basically was a bad month, 45% of revenues in dollars, and we had a very high position of the cash flow in the same currency. So we -- as Enrique says, we -- if you pay those \$8 million to date, it would be naturally accepting a much, much higher -- implicitly, a much, much higher FX, which doesn't make any sense to us at this point. But yes, we are aware and very vigilant of the conditions of the market, and we'll analyze continuously to see what the best option is.

Unidentified Analyst

Okay. Another question that I have and probably is related to that specifically is about the cash flow. Because on this first quarter '20, you have, correct me if I am wrong, but around MXN 252 million, right, so -- more or less than that. My question is regarding to how long can you maintain this cash flow position if you're partially operating 5 properties and the rest of your properties are closed? And on -- or from outside and talking to the government, specifically with Carlo Salazar, they told us that probably the shutdown will be until the mid-June. So it's going to hit everyone, not only us entertainment industry, but everyone, at least for the second quarter. So my concern is, from our perspective, you're going to run out from cash. So what are the specific actions that you're taking in order to preserve not only cash, but a positive cash flow?

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

Yes, thank you. Well, we -- the measures that we're taking that were just announced or read by Max have had a very significant impact on our savings, on cash flow. So we feel comfortable for the greater part of the year to continue in this -- in the same situation, though we do not believe that this will be the case. We believe that on the third quarter, we should begin to recover as we can see other countries. And we can see that the curve has flattened in other countries, even in the United States, which has had the largest impact. So we do not foresee a problem that would go beyond this year, and we feel comfortable with our cash position in this year.

But in any case, if the case were, which is a possibility because everything is very uncertain, if the case was that we would need additional resources. That is the reason why we have called or we have announced, I should say, the possibility of this capital increase. And let me make a very important point. The shareholders of this company, the majority of the shareholders of this company because I can't speak for the ones that are in the market in the free float, are totally supportive of the company, are totally supportive of what the company's future, whatever -- wherever this may take us. And if you do a very simple analysis, you can see that we have around \$100 million plus debt, or let's talk in pesos. We have to -- the amount of debt that we mentioned, and we have 10 million -- MXN 10 billion of assets. So I mean, that's clearly the worst-case scenario, but it's not going to happen due to the case that the shareholders are willing to, if needed, support the company and not only support the company. Obviously, we think that there could be opportunities along the way once the situation starts to straighten up, and we want to be ready for these opportunities in the market.



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Unidentified Analyst

Okay. And my last question, if I'm allowed.

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

Yes.

Unidentified Analyst

I don't know if it was already mentioned about this straightforward talking with your creditors and I assume with every single, probably banks or any financial institution. But my question is, if some financial institution or a lender already put on the table, deferral, I don't know, of interest payments or another credit line facility.

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

Yes. We see already waivers from our creditors for the next following 6 months that they waived the payment of interest and capital.

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

We have received that verbally, and we're waiting for written confirmation, but we do not see any problem to obtain this. So they are willing to flexibilize and to help us through this stage.

Operator

Thank you. And we have no further questions at this time. I would now like to turn the conference back to Francisco Zinser for closing remarks.

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

Okay. I would just like to make sure there's no other question before I -- we close the call.

We would like to thank you, as always, for your trust and the trust that you have placed in us as a management team and as a company, and we reaffirm our commitment to maximize your investment and continue in our goal to become the leading hotel company in this country. We would also like to very especially, and I would put that underline, thank all of our associates for their constant effort and for their help and going way beyond the call of duty in these very difficult times.

Thank you very much, everyone. I hope all of you are in good health and remain that way. And we'll talk again whenever you want to or in our next quarterly report. Have a great day, everyone.

Operator

Thank you. Ladies and gentlemen, this concludes today's presentation. We thank you for your attendance and participation. You may now disconnect.

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