

Miguel Bornacini

Grupo Hotelero Santa Fe, SAB DE CV

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12:00PM CT

Operator: The following is a recording for Miguel Bornacini from Grupo Hotelero Santa Fe on Friday, October 23, 2015, at 12:00PM Central. Excuse me, everyone, we now have all of our speakers in conference. Please be aware that each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow if you would like to ask a question. Thank you. I would now like to turn the conference over to Miguel Bornacini. Sir, you may begin.

Miguel Bornacini: Good afternoon, everyone, and thank you for joining us today. My name is Miguel Bornacini, Head of Investor Relations of Grupo Hotelero Santa Fe, and I would like to welcome you to the Company's third quarter 2015 results webcast. I am here with Carlos Ancira, Chairman of the Company; Francisco Zinser, our CEO; and Enrique Martinez, our CFO. 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. All 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 we will follow during this call is available on our website in the Investor Relations section. At the end of the presentation, we will open up the call to any questions you may have. I will now turn the call over to Mr. Carlos Ancira, Chairman of Grupo Hotelero Santa Fe. Please go ahead, Carlos.

Carlos Ancira: Good afternoon. It's a pleasure to welcome you to our third quarter '15 results webcast. This earnings report is especially significant for us, as it makes our first anniversary of listing on the Mexican Stock Exchange. During the last 12 months, we added 603 rooms to our portfolio through the acquisition of Krystal Urban Cancun Centro and Krystal Satelite Maria Barbara, the newly-developed Hilton Garden Inn Monterrey Aeropuerto in a JV with OMA, and the expansion of the Krystal Resort Cancun. Seventy-eight percent of our (indiscernible 2:22) operate under the Krystal brand, and in terms of rooms, 73 percent of our total portfolio is branded Krystal. Over 2.5 billion pesos have been invested by our own and third-party resources in the Krystal brand. This, including the presence of our brand, which ultimately translates into brand awareness and commercial network. I would like to enforce that our strategy is aimed to growing our hotel platform in Mexico, focusing on our Krystal brand, mainly in the four and five-star categories, and giving priority to the main urban markets such as Mexico City, Guadalajara, Monterrey and other key senior (ph 3:02) markets in the country. I would like to thank all the investors for the trust they have placed on us and reaffirm my commitment to maximize (indiscernible 3:11).

Miguel Bornacini: Thank you, Carlos. We are pleased to be with you to review the main operating developments and financial highlights for the quarter.

Please go to slide 3. In the third quarter of 2015, we have shown solid growth in all our revenues lines, particularly in room revenue, with an increase of 32 percent up over last year, bringing total revenue growth to 37 percent year-over-year. Year-to-date revenue has grown 30 percent. Our main growth, just as in the third quarter, comes from room revenue, with a 34 percent increase, which is the most profitable source of revenue. EBITDA growth outperformed the growth in revenues for both the third quarter and year to date, with margins of 33 percent for the latter. Ahead in this presentation we will show an analysis of the Satelite hotel portfolio and the hotels (indiscernible 4:08) stage.

Please go to slide 4. Regarding our Satellite owned hotels, we show a healthy increase in both ADR and occupancy, thus increasing RevPAR by 14 percent, which is directly reflected in revenue growth as room inventory remains unchanged. We achieved these results by continued revenue management efforts, in combination with active asset management seeking for additional revenue sources.

Please go to slide 5. Regarding our owned hotels in (indiscernible 4:46) stage, we see a similar behavior as in the last slide, with a 14 percent increase in RevPAR and an increase of 44 percent of room inventory. All metrics show growth. The combination of a growing RevPAR and room inventory result in 64 percent in room revenue alone. We achieved this through our acquired properties product improvement plan, the continued implementation of our strategic and business plans, the repositioning of properties and the inclusion of our distribution channels.

Please go to slide 6. Considering all the before mentioned, during the last 12 months, we have shown solid operational performance, translating into the last 12 months EBITDA increase of 37 percent over 2014 full year. Also, we have achieved a 4-point additional margin expansion, reaching 33 percent EBITDA margin, whereas our 2015 guidance provided to the market was an EBITDA margin of 29.5 percent. It is important to highlight that EBITDA for the last 12 months reached 288.5 million pesos, which is at the higher end of our 2015 guidance.

Please go to slide 7. We are very proud of the recent opening of the 134-room Hilton Garden Inn Monterrey Airport hotel, which is located within the premises of the airport, directly connected to Terminal B, which makes it the only hotel inside the airport. This is a result of a co-investment with OMA, the airport administrator, and our group, with a 15 percent equity stake. This is the fifth hotel that has been added to the portfolio under the third-party operating agreement, which further demonstrates our operational capacity. Enrique Martinez, our CFO, will now provide us with an analysis of our natural currency hedging.

Enrique Martinez: Thanks, Miguel. Good afternoon, everyone. The Company's financial debt is dollar-denominated since a large part of revenues of the Krystal Grand Punta Cancun, Hilton Puerto Vallarta and Hilton Guadalajara Hotels are in U.S. dollars. During 3Q '15, despite fact that the months of July and August are typical vacation seasons in the domestic market, approximately 15 percent of the total revenue was denominated in dollars. For the nine-month period ended September 2015, approximately 23 percent of total revenue was dollar-denominated. After taking into account costs and expenses in dollars, revenue denominated in dollars was sufficient to cover the financial debt, both in terms of interest as well as principal. Debt coverage ratio resulting from dollar cash flow is 1.2 times for the nine-month period ended September 2015, and is equal to 2.8 times considering the Company's cash flow in both dollars and pesos, as (inaudible 8:19). Going forward, the Company will balance its debt between pesos and dollars in accordance with the currency generation of each hotel. I would like to turn the call to Carlos for the final remarks.

Carlos Ancira: I would like to emphasize on the fact that the industry data and fundamentals continue to be strong. From January '015, international passenger traffic has increased 8.4 percent compared with the same period in '014, while revenue generated by this segment increased 8 percent. Airport traffic grew 12.2 percent (indiscernible 8:55) results have increases of 12.8 and 11.2 growth in the domestic and international segments, respectively. As a result of the aforementioned, Mexico has risen from 15th place to the 10th place in terms of international tourist passengers arrival.

Miguel Bornacini: Thank you, Carlos. We will now open up the call for questions.

Operator: Thank you. At this time, we will open the floor for your questions. If you would like to ask a question, please press the "star" key followed by the "one" key on your

Touchtone phones now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue, just press "star two". Again, to ask a question, please press "star one" now. Written questions can also be submitted in the discussion area of the web portion. Again, if you would like to ask a question, please press "star one" now.

Miguel Bornacini: We can also take any questions in Spanish, if it's better for anyone.

Operator: Thank you. We now have our first question coming from Andres Olea from GBM.

Andres Olea: Hello, Francisco, Miguel and congratulations for your sound results. I just wanted to understand how your dollar-denominated revenues are going to look in the fourth quarter, understand the seasonality of the business a little bit better and seasonality of the dollar revenue generation in the fourth quarter. This quarter was 14 percent. Last quarter was around 30 percent of the revenues were dollars, so I just wanted to understand in the fourth quarter, if it's usually a quarter where you generate more dollar-denominated revenues.

Carlos Ancira: Thank you, Andres. Yes, you are correct. The third quarter is traditionally and statistically the lowest generating U.S. dollar quarter of the year. The fourth quarter, I cannot give you any projections on that, but the fourth quarter traditionally and historically generates a higher amount of dollars than, obviously than the third because it is the beginning of the winter season and it's when we start to receive more U.S. travelers to the resorts and, additionally, also to some urban destinations. There is a lot of MIC (ph 11:41) business, which is meetings, incentives and conventions, that is booked for the fourth quarter, and a part of that could be dollar-denominated.

Andres Olea: Great. And another question regarding your net debt to EBITDA ratio. You have about 50 million pesos in cash right now, and I just wanted to understand better the growth strategy going forward, if the proceeds are going to be generated from the cash flow of the Company, or are you going to increase the leverage of the Company, or how do you plan on growing the number of hotels going forward?

Enrique Martinez: Thank you. Yes, obviously we have right now leverage capacity which will increase our debt to EBITDA ratio (indiscernible 12:36) times to maybe 4 times.

Miguel Bornacini: And additionally, the Company, as you mentioned, generates cash flow. But yes, there is additional leverage capacity and this will take us to the second or third quarter of 2016 to continue with our development plan, with our growth plan.

Andres Olea: So 4 times is the level where you feel comfortable, and do you think that will come down in the end of 2016? Is that, like, the limit for you to -

Enrique Martinez: Yes, we feel very comfortable with that, and this is below the standards on the industry.

Miguel Bornacini: Hi, Andres. This is Miguel. We also have – we like to watch two lines here. One is 60 percent loan to value. We never want to exceed that, but sometimes our – the top capacity of our leverage is the times EBITDA.

Carlos Ancira: But traditionally, Andres, you could see some peaks at certain points because, based on our strategy, which is basically through acquisitions, as you have seen

in the past months, we acquire a hotel and we take full percentage of the ownership. We take the debt, but we still don't have the full EBITDA capacity of the property. But yes, what Miguel and Enrique said is basically what our strategy is, and we feel comfortable that we continue (indiscernible 14:11) with our growth plans with this strategy.

Andres Olea: Thank you very much and congratulations again for the great, great quarter you had.

Miguel Bornacini: Thank you, Andres.

Carlos Ancira: Thank you very much.

Operator: Thank you. Again, if you would like to ask a question, please press "star one" now. Our next question comes from Marco Medina from Vepormas.

Marco Medina: Yes, hi. Hello, Paco (ph 14:41) and the rest of the team. Congratulations on the results. I just have one question. My question is regarding RevPAR growth. I mean, this year, we have seen some impressive numbers, so I was wondering how this metric will look like on 2016 and going forward? Thanks.

Carlos Ancira: Thank you, Marco. We cannot – as you know, we cannot give projections for the future, but we believe that with our strategy and with the way that our portfolio is built with its stabilized and hotels and (indiscernible 15:23) of stabilization, we will continue to see healthy RevPAR growth, and we expect this growth to come from both occupancy and ADR and I would say quite balanced, as you can see it today.

Marco Medina: Okay. And then about EBITDA margin, we have seen some – well, the margin has been between the low 30s and mid, and low, all in the low 30s, so I was trying to understand what will happen going forward with this, with the margin.

Carlos Ancira: We will not publish our guidelines for 2016 until closer to the end of the year, but we think that we have a quite solid EBITDA margin based on our efficiency and operational model, which gives us tremendous advantages in terms of a very low payroll cost compared to other peers through our multi-tasking strategies. So we believe that we will be on the high end of the guidance that we gave for 2015.

Marco Medina: Okay. Thanks very much, and again, congratulations on the results.

Carlos Ancira: Thank you, Marco.

Miguel Bornacini: Thank you.

Operator: Thank you. Again, if anyone would like to ask a question, please press “star one” on your touchtone phones now, and we will also be happy to take questions in English or in Spanish. Again, that is “star one” if you would like to ask a question. Again, that is “star one” if you would like to ask a question. Questions may also be submitted in the discussion area of the web presentation.

Miguel Bornacini: (Spanish spoken 0:17:44.3)

Operator: Again, if you would like to ask a question, please press “star one”.

Miguel Bornacini: Well, I would like to thank you all again for your participation today. If you have any further questions, please feel free to contact our Investor Relations team at any time. We are also open to any comments or questions you may have. Have a great day and a great weekend.

Carlos Ancira: Thank you, everyone.

Enrique Martinez: Thank you, everyone.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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