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HOTEL.MX - Q2 2020 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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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. - EVP*

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

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

It is now my pleasure to introduce today's first presenter, Mr. Maximilian 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*

Thank you, operator. Good afternoon, everyone, and thank you for joining us today. My name is Maximilian, Investor Relations Director of Hotel, and I would like to welcome you to the company's earnings webcast for the second quarter of 2020.

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. We are all connected from different locations, so please bear with us. The presentation slides we will follow during the call are available on our webcast, which you can find on 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 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. In order to have our call as seamlessly as possible and that we are all in different locations, I will continue with the rest of the presentation. After which, all of us will be available for questions.

So I will ask you to please move to Slide 2. Due to the impact of the COVID-19 pandemic on a global basis, the tourism industry has been importantly impacted, particularly in the second quarter of the year. It was a particular challenging quarter for our company, since most of our hotels were closed for the months of April, May and a part of June. As of today, all the hotels in our portfolio, excluding Hilton Guadalajara and Hyatt Place Aguascalientes are in operation. These 2 hotels will be opening in the following weeks based on demand. Also, please keep in mind that currently, most of our hotels are limited to 30% occupancy due to the government regulation. However, these measures should ease in the following weeks.

Occupancy in the quarter was 4%. However, if we measure the real occupancy, excluding periods when we were closed, we posted 19.5% adjusted occupancy. This is a positive data point as it allows us to see how hotels are performing. Since the reopening of the portfolio, we have seen week-over-week improvements in line with our expectations. We hope that this recovery continues in the third and fourth quarter of the year and that we can gradually build occupancy and rates and thus, exceed our breakeven points of between 25% and 35% occupancy depending on the property and location with current ADR depending on the property and market.



Financially, we have implemented a variety of initiatives to preserve our working capital and lower our operating expenses. In 2Q '20, we were able to lower our costs and expenses by over 65%. These measures we have implemented include the reduction of non-priority expenses, wage reduction at all levels in both corporate and operational structures, averaging approximately 50%; lowering operational costs and expenses at properties that remained open and deferring all nonessential CapEx. We have also reprofiled our cash flow, thanks to the support of the banks we work with, ensuring adequate working capital levels to restart operations.

Now please move to Slide 3. Moving on to our quarterly results. Revenues totaled MXN 15.5 million, down 97.1%, compared to 2Q '19. EBITDA was negative MXN 86.7 million in the quarter, consequence of a severe reduction in revenues for the quarter due to the pandemic.

Regarding company-owned hotels, RevPAR decreased by 96.9% due to a 20.2% decrease in ADR and a 58.4 percentage point decrease in occupancy. Room revenue decreased by 97%. Food and beverage revenue decreased by 98%. And other income, which includes, among other items, even room rentals, parking, laundry, telephone, and leasing of commercial spaces, decreased 93%. While third-party hotel management fees decreased by 95%.

Now please move to Slide 4. Moving on to our key operational metrics on a consolidated level, this quarter, we posted a 95% decrease in RevPAR, which is comprised of an ADR decrease of 22% and a decrease in occupancy of 60 percentage points.

Now please move to Page 5. EBITDA in the quarter was negative MXN 87 million. Compared to MXN 134 million in 2Q '19. Although we were able to lower cost and expenses by over 65%, this was not enough to post positive result as revenues were very low.

Moving on, operating income was negative MXN 152 million compared to MXN 65 million in 2Q '19. In terms of margin...

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

Max, Max. Excuse me, Max. Just one interruption. This is Francisco Zinser. Hello, everyone. And the peers that have already published their information have shown much weaker margins and much weaker numbers than what we have. So we've been very, very efficient in terms of generating as much as possible -- as much EBITDA as possible even with very challenging times. Sorry, Max.

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

Thank you, Francisco. In terms of net income, we went from a gain of MXN 20 million in 2Q '19 to a loss of MXN 43 million in 2Q '20. This was driven by a lower operating results, which was partially compensated by an FX gain and lower interest expenses.

Now please move to Slide 6. Net debt was MXN 3,036 million at the end of 2Q '20, which represented a total debt-to-EBITDA ratio of 8.2x, mainly due to negative EBITDA in the quarter. Total debt is mostly U.S. dollar denominated, 95% to be exact, and this tranche of debt has an average cost of 3.4%, while the remaining portion of 5% of total debt is peso-denominated with an average cost of 8.3% in pesos, having a competitive overall debt mix of 3.6%. Additionally, I would like to mention that over 95% of debt maturities are long term.

Our short U.S. dollar position by the end of the quarter was \$126 million, equivalent to MXN 2,917 million.

Now please move to Slide 7. Lastly, I would like to give a quick update on the Hyatt Regency Mexico City Insurgentes. We initiated construction in late June and plan inauguration by the fourth quarter of 2022. I would like to highlight and express our gratitude to 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. As always, we are especially thankful for the trust and support of our shareholders in this time, and again, 12 of our tremendously professional and cooperative teams.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jorge Lagunas with Apalache.

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

I have 3 questions. I will say them altogether. The first one is, is commercial initiatives are iterating to reactivate domestic and international tours in your hotels? The second question is, what is your perspective on the recovery of beaches and city hotels? And finally, do you expect to maintain the CapEx at a minimum for the rest of the year or maybe a reactivation?

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

Thank you very much, Jorge. Paco, can you please answer the two of these questions, which is the commercial initiatives and perspectives on urban and leisure markets.

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

Sure, Pancho. Thank you very much, and thank you all here for your interest. Well, we have implemented -- we had a reactivation plan since the end of March. This is ready to reopen the hotels as all the industry was really looking forward to start again opening the hotels. Basically, what we knew is that the Mexican market will be crucial and will be the big potential to start in the different nations where we have many hotels, as Maria, Ixtapa, Acapulco and grow markets that are very close to the 2 different original cities such as Guadalajara and Tlaquepaque. So we made some very strategic promotions in those markets and the good news is that in July, we went all the way to the minimum percentage of occupancy that the government published, which is 30%, as Max was mentioning. And what we are seeing in August is that the demand is increasing, not so much, but increasing as far as we can get in August, which we expect the government will allow us to grow a little bit more in terms of points, either 40% or 50%.

But basically, those markets and in the case of Cancun, it's a little bit lower taking into consideration that the market is dependent more on the planes than the road market. And talking about the Urban, they are very low, in fact, Mexico City is very low. Guadalajara, it's a little bit better, but not that better. And in the case of cities like Monterrey, it's a little bit better compared to Guadalajara and Mexico City. The people is just a little bit afraid of taking the plane, and -- but we see light in August because most of the companies are starting to try and reactivate some different activities in August.

That's the visibility we have right now. Nobody knows what is going to happen in September, October. But as far as we know the international market, we are expecting to come until the end of October and beginning of November.

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

Yes. Thank you, Paco. And regarding -- Jorge, regarding your question about CapEx, obviously, the first priority of this company is to maintain working capital and liquidity as much as possible. So we will only be addressing CapEx issues that are very important and that have a very clear reason to be done. Because our main focus is on keeping our cash position as sound as possible.

Operator

Our next question comes from Martin Lara with Miranda Global Research.

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

I only have one question. Could you please give us an update on the capital increase?

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

Yes. Yes, basically, what has been authorized is the possibility of calling a shareholders meeting for a capital increase if the company seems or sees that need to do so. At this point, we continue with our strategy of having the possibility of doing it. But we have not advanced in any sense in terms of timings or if we will or not be doing it at the end.

Operator

(Operator Instructions) Our next question comes from [Edison Muglia] with [ECS Capital].

Unidentified Analyst

I have a couple of them. I would like to start with this last point that Martin Lara said about the capital increase. So is this a possibility what strategies are you planning for financing because in the earnings release report, you didn't mention or didn't have any color about cash flow preservation and probably a new debt or broadly hiring a new debt. And that will be my first question. My second question is regarding how you are presenting occupancy rate? And it seems that -- don't get me wrong, but you're trying to project a more positive way from the opening hotels point of view. So it's going to be the new-normal metric or driven a percent as usual for the past quarter? And last, could you give us more color about the preservation of cash and equivalents because it's not clear that you're going to be able to maintain that position from the second half of '20?

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

Yes. Thank you very much. Enrique, can you please address the last part of the question in terms of what we're doing to preserve our cash position? And I will address the other 2 as soon as you finish.

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

Yes, sure, Pancho. In consideration of the cash conservation, it is important to say that we make a significant renegotiation with all our banks and lenders in order to postpone the debt service for this 6 months, starting from April and then in by November of this year. On the other hand, we are very strict with the control of the cash. We are trying to collect as high as we can and to pay the minimum requisite to maintain the hotels in good operations.

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

Additionally, we continue with the key part of knowing if the capital increase will be necessary or not. It's how the business evolves through the rest of the year. So we have -- we feel comfortable that we can go through 2020 with the expectations that we see in the market and have a healthy position.

Your question about occupancy, the important thing here is you cannot have occupancy. We are not trying to show any number that is not correct. What we're trying to show is that while we would -- we're able to sell because we were not forced to close down the hotels. While we were able to sell, we generated 19% occupancy. But if you consider the date we were closed, that occupancy, which is the occupancy that is recorded in the numbers and is not the adjusted occupancy, is 4%. So what we tried to show with that is that during the time that we were able to have our operations, we have much better demand than what could be seen if I just show a 4% occupancy number. I hope that's not misleading, no.



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

And then let me just complement that, Pancho. If you see the press release, we actually put out 2 tables for occupancy. So the first table is the one that we've always published, and we will continue to publish. So it's important to say that we are not changing the reporting metric at all. We simply included a second adjusted occupancy, which we also mentioned in the press release that we will be posting for the rest of the year, just so you can see what the numbers are and we'll observe the real trend. And I think it's much more illustrative to say, well, the days that we have the hotels opened, we have this 19.5% occupancy. However, if you look at the occupancy for the quarter, yes, it was 4%. But I think the -- if you can see that just for the second half of June that we had some hotels open and the ones that were open for the quarter, which will only be a couple of them, they, I think, showed healthy numbers, which is at that 19.5%.

So just in order to give investors a better picture of how things are progressing on a better way.

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

And concerning the capital increase -- I'm sorry, go ahead.

Unidentified Analyst

No, I was not -- I am sorry.

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

Okay. Regarding the capital increase, as we just mentioned, and we mentioned at the time when we were authorized by the Board to convey at shareholders' meeting, to present the possibility and conditions of what the capital increase could be. It's exactly the same status we have today. We don't foresee any measures at this point in terms of going ahead with the capital increase unless we see that we have the need to because of the way the business performs. The great news is that we have fantastic shareholders that are all willing to support the company, and that are willing to if there -- I don't like the word bet, but keep their focus on Grupo Hotelero.

Unidentified Analyst

Okay. And I have 2 more questions. I'm sorry. The first one will be about the breakeven that probably you are expecting between 25% to 35%. And I mean, if you can give us more color how would you achieve this? Or if you have something more fundamentally changed in the business model? Or it's going to be part of the cost-cutting strategy that you are performing during this quarter?

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

Yes, sure, Paco, can you address the breakeven, please?

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

Sure. It's very important to mention that based on this experience we are having with the pandemia, we have opened our minds to a different levels of paradigm what basically has shown us that some of the expenses of the company that were fixed expenses, now we made them variable expenses. Secondly, we reduced our capacity of the staff and the hotel based on the occupancy we have for the rest of the semester. And the third part will be that based on these reductions, we have also have been reducing different expenses in all operating levels, which, at the end of the day, give us the opportunity to reduce at least 5 percentage points in terms of breakeven, even though, we wouldn't imagine to reach at a very

good level of reducing, let's say, from 30% to 25%, we have done it. We are very happy with that. And as Pancho mentioned, that shows, we feel comfortable that we are doing better than them based on this strategic plan of reducing the costs based on the situation we are living.

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

Okay. And sorry, just one important point, you have to consider that this breaking point is at operational level. It's a breakeven at a gross operating profit, which is revenues minus direct and indirect expenses at the property level. It does not include financials or any other kind of costs. It's just operational.

Unidentified Analyst

Okay. Okay, pretty clear. And this is going to be my last one. About these new procedures about sanitization and hygiene, are you considering more, on the long run, capital expenditure? I'm not saying this, like particularly in 2020, but for the following years in order to have these new metrics -- or no metrics -- new measures in sanitization?

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

Well, probably Paco will add something to what I will say now. But I think that within the new normal, which I still think we are not even close to seeing, I think, there's a lot of things that are going to start happening. And I think the vaccine and the medicine treatment is going to be a tremendous game changer for all of this. But I do think that hygiene and sanitization will become or will continue to be very relevant and will be blended into the expenses of the hotels. But I don't foresee unless -- I don't know if -- but I don't think they will impact our P&L in a substantial way.

Operator

At this time, we have no other questions in the queue. So I'll turn it back to our speakers for closing comments.

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

Well, thank you very much, everyone, for connecting. Thank you very much for your trust in our company, in our team and our staff. And I would like underline and thank all of our associates and all of the more than 3,700 people that work with us that have clearly shown a fantastic commitment to the company that has clearly gone the extra mile on many times, that have given their personal efforts in terms of (inaudible) to make sure that we can all see this to the end and go forward. And thank you, especially to all of you, all of our investors and all of the people that look into this company. Thank you for your time. Have a great weekend.

Operator

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



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