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# PRELIMINARY TRANSCRIPT

HOTEL\*.MX - Q3 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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OCTOBER 26, 2018 / 4:00PM, HOTEL\*.MX - Q3 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

(Operator Instructions)

It is now my pleasure to turn the conference over to Max Zimmerman, Investor Relations director for Grupo Hotelero Santa Fe.

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

Hi, good afternoon for everyone in New York, and good morning for everyone in Mexico. I thank you for joining us today.

My name is Max Zimmerman, and I'm the Investor Relations Director of HOTEL. And I would like to welcome you to the company's earnings webcast for the third quarter of 2018.

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

Pancho and Paco are joining the call from remote locations, so they will give an introduction, and afterwards participate in the Q&A.

The presentation slides we will follow during the call are available on our webcast, which you can find in our Investor Relations section of the website, and also as a PDF which you can download on our website currently.

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 detail notes in the company's press releases regarding forward-looking statements. At the end of the presentation, we will open the call for any questions you may have.

We will now begin with the presentation. Please go to Slide 2, and I will pass the call to Francisco Zinser.

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

Thank you very much, Max. Good morning, everybody. Well, we posted solid results for the first 9 months of the year. Although, our revenue and EBITDA growth ended below our expectations and we will proceed to explain. Basically, the top line came in lower than expected for the third quarter, mainly due to circumstantial, both internal and external factors.

The most important effect came from the change in the model or the cobranding with AMResorts, and the consequential change of model and the connectivity with AMResorts.



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It had a larger impact than we actually it would have. And basically we are in the process of finalizing this integration. The change -- by change of model what we mean is, we in the hotels we are going to a full all-inclusive model. And as you might recall, we had some hotels that worked with the hybrid model, meaning EP plan like a regular hotel and all-inclusive.

So what we basically are doing now is going to all-inclusive. And we did this in the summer season, which is mainly the domestic travel season, which is the part of the market that used the hybrid model more in terms of EP sales. So the switch, although, it hurt in the summer. What we try to do also is we do it with most intensively when we have a less number of international travelers coming to our Hotels. So to be prepared for the winter season, which is about to begin.

We are totally confident that the relationship and the cobranding that we signed with AMResorts is going to bring very substantial results, and we'll achieve the goals that we have foreset. For this due to many reasons, one of them being a very higher dollar-denominated sales percentages, meaning that we will have revenues in dollars for a -- as a higher percentage of total revenues. And also it will give access to a more direct and diversified profitable distribution channels.

The external factors we will basically highlight, the group convention segment. Basically, due to the economic slowdown in Mexico, we did perceive a slowdown in what companies and government entities were spending in terms of groups for sales, for incentive, for trainings. And that as you know, we have -- in our Hotels, we have substantial meeting facilities. So this is the segment that's relevant to the company.

On the other hand, we also had that this (inaudible) that was presented in Cancún, which though true, basically every year it appears historically, it was never in the amounts and the amount of months, almost 6 months versus 2, 3 months in the past and tremendous amounts of sarcasm, which basically had an impact on the destination of Cancún and all of Cancún's surrounding areas.

Nevertheless, we have already gone -- we are finished or we have basically the (inaudible) is basically gone. So we expect these interest should not be or hopefully they will not repeat in the same amount in the following year.

We also had the impact of the effective negative year expenses, which is the incremental cost in electricity. And this is really amazing and substantial, even though, the government announced all these energetic reforms.

Just for your information, January, September 2018 versus the same period in 2017, the incremental cost of these expenses was 71%. So it's an extremely high amount and that was something that we did not foresee.

Because of that we previously mentioned issues that have touched on, we are adjusting our guidance in terms of revenue MXN 2,010 million and EBITDA to MXN 670 million, which implies a 27% growth in both lines for 2018 compared to 2017.

So now I will turn the call to Paco Medina, our CEO. Paco?

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

Thank you, Pancho, and good morning, everyone. Let me talk with some other highlights. In relation to tourism sector in Mexico, according to the figures, from the Mexico Institute of geography (inaudible) Mexico international visitors increased 7%, and their spending increased 4% in the first 8 months of the year compared to the same period of 2017. This marks a healthy growth rate. But below what we saw in the last 5 years, which is a natural consequence of the SLA (inaudible) of growth.

On the other hand, the quarter Mexico -- in this quarter, Mexico gained 2 positions reaching the 6-month visitor tranche in the world according to World Tourism organization.

Moving on to our quarterly results, total revenue was up MXN 475.1 million, and EBITDA was MXN 143.7 million, up 20% and 19%, respectively.



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Compared to the figures recorded in third quarter 2017, regarding company-owned Hotels, RevPar decreased by 6%, driven by 0.5, 0.9 points in occupancy, which was partially offset by a 3.9% increase in ADI.

It's important to mention that during this period, we increased our room old inventory in 18%.

This quarter, we also were proud to announce one completion and one operating content.

First, we announced the signing a contract to acquire 50% of the Claria (inaudible) Hotel for MXN 128 million. The property is beautiful hotel located in (inaudible) with 140 rooms.

Second, we announced the timing of our management content for our -- for several sales. The double three by Hilton in Teluucca with 143 rooms located in the Industrial part of Teluucca in (inaudible) Mexico.

Our hotel, we remain committed to becoming the leading Hotel company in Mexico. The management team and associates we had assembled and the strategy we have aligned will allows us to continue growing efficiently and profitably in the long run. As always, we thank you for the trust and support of our shareholders.

Moving onto our quarterly operational result. Please go to Slide 3, and I will call back to Max Zimmerman.

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

Thank you, Paco. During the quarter, total revenues contributed 24% to MXN 385 million, driven by a 17% growth in room revenue, 38% growth in food and beverage revenue, and 22% in other revenue and a 7% increase in third-party hotel management fee.

Room revenue growth was driven by the opening of the Krystal Grand Los Cabos, Krystal Grand Nuevo Vallarta and Krystal Grand Suites in (inaudible). The performance and also the performance of stabilized hotels, including the Krystal Urban Ciudad Juarez.

Food and beverage revenue grew 38% to MXN 190 million in the quarter, mainly driven by the growth of the Krystal Grand Suites Insurgentes, Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, which are in the early stages of stabilization.

Management fees related to third-party owned hotels increased by 7%, due to the combined effect of 4% increase in the number of rooms under operation, and 4% increase in RevPar during the period.

Now we move to Slide 4. Moving on to our key operational metrics, on a consolidated level this quarter, we posted a 2.8% increase in RevPar, which is comprised of an ADR increase of 3.8%, and a 4.1 percentage point reduction in occupancy, driven by factors Pancho just mentioned.

Now we move to Slide 5. And I will have it all over to Enrique Martinez, which will guide you through our financial results.

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

Thank you, Max. Ending the quarter with MXN 134 million, a 19% increase compared to the third quarter of '17.

Business room was driven by the combined effect of revenue growth, the growth of Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, as company-owned hotels. And the opening of the Hilton Hacienda at the Hilton (inaudible).

EBITDA margin during the quarter was 30.3% compared to 31.5% in third quarter of '17.



Moving on the operating income, we reached MXN 90 million compared to MXN 80 million in third quarter of '17. The increase was driven by the factors I just mentioned.

In terms of net income, we went to a gain from MXN 45 million in third quarter of '17, to a gain up MXN 123 million in third quarter '18, driven by a higher net result from operating income growth.

Now please move to Slide 6. Net debt was MXN 2,241 million at the end of third quarter '18, which represents a total debt-to-EBITDA last 12 months ratio of 3.

5x. Total debt is mostly U.S. dollar-denominated, 86% to be exact and this tranche of debt has an average cost of 5.5%, while the remaining portion of 14% is peso-denominated with an average cost of 11.2%.

Having a competitive overall debt mix of 6.3%.

Additionally, I would like to mention that over 88% of debt maturities are long-term. The Mexican peso depreciated 6% by the end of the quarter, and had a positive impact in our financial costs.

Also our short U.S. dollar position by the end of the quarter was \$104 million equivalent to MXN 1,963 million.

Now let's move to Slide 7, and I will pass the call back to Max.

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

Thank you, Enrique. I would like to quickly highlight our latest 2 announcements that Paco just mentioned. And you can also see some pictures of the beautiful hotel of Krystal Grand, also which Paco just mentioned.

For this Hotel, we announced the signing of a contract to acquire 50% of this 5-star Hotel located in the thisLeon,

Guanajuato with 140 rooms.

Currently, brand (inaudible) for the property are being evaluated. The value of the asset is MXN 383 million.

Out of the total investment, MXN 127 million were debt. And Hotel contributed MXN 148 million, which represents 50% of the equity. And we will consolidate the results in our financial statement.

The other 50% equity stake will remain with a group of direct Mexican investors, who previously owned the motel. The property is in (inaudible) our premium location in a mixed used real estate development, including a shopping mall, residential apartment, and office space resulted by a Mexican architect.

It is in the north of the city in the (inaudible) one of the fastest growing areas of the city.

And secondly, we announced the signing of management contract of a 4-star Hotel, the Doubletree Hilton in Toluca with 142 rooms, located in industrial part of the city in the (inaudible).

The Hotel, which is owned by a third-party is located on the (inaudible) boulevard Avenue, very close to plants to General Motors, FTH, (inaudible) and Hank.

Now, in our final stages of construction and it is due to open by early 2019.



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Before I open up for questions, I would like to mention that we have demonstrated we know how to grow profitably, while being disciplined with valuation. We also considered that we are in a unique position to continue taking advantage of the growing hotel industry in Mexico to become one of the leading in the country.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And we do have our first question. Our recover first question comes from José Espitia with Bolsa.

### Unidentified Analyst

My name is Francisco, I'm speaking on behalf of José Sita. My question is what can we expect from the guidance of them next year due to the change you have to do for 2018 guidance?

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

Well, thank you very much. What we can say at this point is that as usual, we will be sharing our guidance at the beginning of the year. In December, we're still working on our numbers and at that point, we will share the goals that we have for 2019. We cannot, obviously, anticipate anything.

### Operator

(Operator Instructions) Our next question comes from Hector Vasquez with GBM.

### Unidentified Analyst

I was wondering if you could give us more color and what to expect for ADR growth for the following year? Should it still be growing above inflation levels? And my second question is what is the remaining expansion CapEx for next year?

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

Okay. Enrique will address the CapEx, the part of the CapEx question. I do thank you for participating. And well basically, as you know, obviously, we are expecting to start to see the results of the cobranding as of next year. And although we cannot talk about specific percentage, once we relieve -- release of guidance we can have a clear view on your question.

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

And regarding the CapEx, our project CapEx for the next year is around MXN 500 million. When our project in will be ended in the first quarter of 2020, with a final investment of MXN 200 million. The remaining CapEx is this project is MXN 27 million.



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

And I would ask just to ask, Hector, we did not comment during the call. But it is reflected in our report -- of a quarterly report. Also we are very close to finalizing the CapEx investments that we announced that we would do for the cobranding, which also have had some impact as well in our topline growth. We will do a very small part of her next year. So basically, and that minor part.

**Operator**

Our next question comes from Christian Wallace with (inaudible).

**Unidentified Analyst**

Do you have the -- will you include annual results alliance in the occupation factor? Do you have the number if we asked you alliance within?

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

The way we do, Christian, the way we report our hotels is and to disaggregating hotels, we only disaggregate what our stabilized and Hotels in the process of being stabilized. But it would be fair to say that the average of the AMResorts was lower than the average specifically compared to the our portfolio and to the previous year. But that we do not disclose figures independently of properties, I don't know Max, if you would like to add something?

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

Yes. I think what you mentioned Pancho, is the right way to look at it. And As you mentioned, earlier in the call, it was because of the change in modern and the change in brand and the connection of systems. However, we are already working all that ready for this winter season. So also Poncho, as you mentioned, maybe we saw some unexpected short-term negative impact but we are completely showed that this was the right decision and that they would be good benefits for having a higher dollarized income for these hotels, also with a higher ADR and occupancy in a medium and long-term. But that's what we can come in for now.

**Operator**

(Operator Instructions) And our next question comes from (inaudible).

**Unidentified Analyst**

My question is regarding to the same resort integration because my understood is this was unexpected negative impact on this quarter but my question is we have done this impact for the following fourth quarter and how long it's going to take this integration because at the beginning of the conference, you told us that it took longer than you expected?

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

Okay. Yes. Basically, and I would like to -- for Paco to finalize the answer to this. But just to go to the end of your question, we expect to have that integration fully furnished by this year. I think we are close to reaching that goal. And we don't expect to have impact of integration in the following year. In one of the main challenges was the systems platform integration because AMResorts through the acquired another large company, and they were themselves integrating this other company into their distribution system. So we were caught right in the middle of that process. And that is one of the reasons why. I'm sure Paco can give you more detail.



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

Sure Pancho. I will add to your comment that there is no question that answering the question something in the last part of the year numbers improved compared to the third quarter. And as you mentioned, the integration of the something Corporation, which is the second largest company in Mexico acquired by something. It will be finished at the end of the year and that means we will finished with integration.

**Operator**

And we have no further questions at this time. I would like to turn the conference back over to management for any closing remarks.

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

Well, just come I would like to thank all of you for participating and for your trust and your presence in Grupo Hotelero. And as Paco said, we are fully committed to continue to give extraordinary results amidst the challenges that we face. And we hope to see you or hear you in the next call for the end of the year. Thank you very much for participating and have a great weekend.

**Operator**

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

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