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HOTEL\*.MX - Q4 2019 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

**Eduardo Alvizouri Alvarez** *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

**Jorge Lagunas;Apalache Análisis;CoDirector 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.

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**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 earnings webcast for the fourth quarter of 2019. On the line, we have Francisco Zinser, our Executive Vice President; Francisco Medina, our CEO; and Enrique Martínez, our CFO. The presentation slides we will follow during the call are available on our webcast, which you can find in our Investor Relations section of our website.

Before we begin, I would like to remind you that this call is being recorded, and the 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 the presentation. Please go to Slide 2, and I'll pass the mic to Francisco Zinser.

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

Hello, good morning. Thank you, Max, and good morning, everyone. Thank you for joining us. Well, as you all know, 2019 has been a challenging year for the Mexican economy and for our sector as well. Our annual results were below expectations, although we did achieve our reviewed -- revised guidance. They were, in any case, below our expectations, mostly due to external factors.

Tourist activity at both resort and urban destinations continued to show softer dynamics. At resort destinations, our main headwind, our main challenge was the sargassum, and the slowdown of international visitors to the country that started in the second semester of 2018. And we had the sargassum, the brown algae washing up the beaches and also the perception of decreasing security in certain markets.



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However, the Pacific region did benefit and did show better numbers in the case of Puerto Vallarta and Los Cabos because of the destinations themselves and the shift of some Caribbean travelers to the Pacific destinations. The urban destinations were mainly affected by the meeting, convention and corporate accounts segments as well as government accounts. Please keep in mind that government accounts are not only what is directly built to the government, but also to all the related parties, such as consultants, lawyers and advisers, which does represent a substantial part of the corporate business.

Providing more insight into our annual performance. We were also affected by the maturation of the Krystal Reflect Grand hotels. They are showing better dynamics at the beginning of this year and are -- the destinations are recovering slowly.

So now I would like to pass the microphone to Paco Medina.

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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. Now let me get into quarterly operational results. Please go to Slide 3.

Moving on to our quarterly results, total revenue was MXN 566 million, up 4% compared to fourth quarter '18, driven by a 9% growth in food and beverage revenue, 5% in other revenue and 10% in third-party hotel management fees. EBITDA was MXN 161 million, down 7% compared to fourth quarter '18, which was in line with our estimated due to the factors Pancho just mentioned.

Regarding company-owned hotels, RevPAR was flat, composed of a 4% increase in occupancy and a 6% decrease in average daily rate. Room revenue showed some slight growth, driven by higher occupancy, which compensated a lower ADR across the board. On the other side, food and beverage revenue increased 9% to MXN 217 million in fourth quarter '19, driven by the performance recorded at Hilton Puerto Vallarta, Reflect Los Cabos and Reflect Nuevo Vallarta, which are all-inclusive property.

Other income, which includes, among other items, event room rentals, parking, laundry, telephone and leasing of commercial spaces, increased 5%, driven by increase of the hotel activity. Third-party hotel management fees increased by 10%, driven by a 34% increase in the number of rooms under operation, which compensated for a lower RevPAR in this segment.

Now please go to Slide 4. Moving on to our key operational metrics. On a consolidated level, this quarter, we posted a 4% decrease in RevPAR, which is comprised of an ADR decrease of 5% and a slight increase in occupancy. The lower RevPAR is attributable to internal and external factors we just mentioned. Besides, the Reflect Cancun in 2019 had the all-inclusive distribution revenue compared to 2018, where the model of business was also EP.

Now please go to Slide 5, and I will hand the call over to Enrique Martínez, 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, Paco. EBITDA in the quarter reached MXN 161 million, a 7% decrease compared to fourth quarter '18. This result was in line with our expectations and driven by the factors Pancho just mentioned. EBITDA margin in the quarter was 28.4% compared to the 31.9% in fourth quarter '18.

Moving on the operating income. We reached MXN 87 million compared to the MXN 111 million in fourth quarter '18. In terms of net income, we went from a gain of MXN 17 million in fourth quarter '18 to a gain of MXN 67 million in fourth quarter '19, driven by a better net financial result, which compensate for a lower operating income.

Now please move to Slide 6. Net debt was MXN 2,470 million at the end of fourth quarter '19. We represent a total debt-to-EBITDA ratio of 3.8x. Total debt is mostly U.S. dollar-denominated, 94% to be exact, and this tranche of the debt has an average cost of 5%, while the remaining portion



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of 6% is peso-denominated, with an average cost of 10.5%, covered a competitive overall debt mix of 5.3%. Additionally, I would like to mention that over 91% of debt maturities are long term.

The Mexican peso appreciated 4% 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 \$127 million, equivalent to MXN 2,392 million.

Now please move to Slide 7, and I will pass back -- the call back to Pancho, who will finish up the call. Thank you.

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

Thank you, Enrique. I would like to mention that we are expecting to resume the construction of the 74 -- 724, the Hyatt Regency Hotel in Insurgentes soon since the issues that were created with the government -- local government of Mexico City have been resolved. Additionally, I would like to highlight 2 contracts for third-party hotels, one of them being the AC by Marriott in Santa Fe District in Mexico City with 168 rooms. The hotel is owned, as I mentioned, by a third party and is basically a new hotel, which was inaugurated in 2017. In the second case, we signed a contract for the Courtyard Marriott Puebla with 154 rooms located in the city of Puebla, close to Mexico City, 2-hour drive. And this is also owned by a third party and is very well located in -- just minutes away from Angelopolis.

Lastly, I would like to inform that we have decided to stop giving out our annual guidance as we have in the past. The reason behind this is that we believe that there are so many combined external factors in these times that have affected our results in the past. And estimating results has grown as a very -- has become a very complex and difficult task to do. So we will not issue any more guidance until we see that the conditions of the market are better.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We'll take our first question from Eduardo Alvizouri with GBM.

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**Eduardo Alvizouri Alvarez** - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

My question is about your view going forward. As you mentioned, we have seen 2019 as a challenging year for all the lodging industry in Mexico, and especially for the resorts and beach destinations, for the leisure segment. We would like to know your view as of 2020, what do you expect both for urban destinations and for leisure destinations?

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

Yes, sure. Thank you very much. Paco Medina will take the question.

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

Thank you, Eduardo, for the question. It's a very interesting question, taking into consideration that the markets are moving very fast. I would say the trend of the market for this 2020 year looks better. The trend is positive if we compare the -- what we call the booking pace which are the reservations compared at the same time last year. For the -- I would separate the winter than the summer and the rest of the year. In these 3 quarters, the trend of the booking reservation looks better compared to 2019, basically, in both the urban and resort destination.



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**Eduardo Alvizouri Alvarez** - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Great. And just a follow-up question, if I may. Do you expect the normalization or recovery in tariff, in average daily rate, especially for the stabilized owned hotels?

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

Well, as you know, we can't give you forward-looking statements. But as Paco just mentioned, we are looking at better dynamics. So it could be possible.

**Operator**

We'll take our next question from Martin Lara with Miranda Research.

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

I only have one question. When do you expect to open the Krystal Grand Insurgentes Hotel?

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

We expect to open by the first quarter of 2022.

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

Okay. And are you providing any CapEx guidance or nothing?

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

Yes, Max will take that question.

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

Thank you, Martin. This is Max. Yes, CapEx should be around 4% of revenues given that, that is what we normally invested to maintenance CapEx. It might -- considering that it happened in the macro environment and macro (inaudible), it could be slightly lower than that. But that's what we normally recommend you guys to put in your models, but maybe it could be a little bit lower than that, but not anything too big.

**Operator**

(Operator Instructions) We'll take our next question from Jorge Lagunas with Apalache Análisis.

**Jorge Lagunas;Apalache Análisis;CoDirector of Research**

Congratulations for reaching the last guidance. I've got the following 2 questions. The first one is was increasing food and beverage revenue derived from an increase in consumer traffic or because of an increase in prices? Can you share your feeling in this category forward? And -- yes.

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

Well, Jorge, basically the main change -- I'm sorry, we're losing you. Jorge? We lost Jorge.

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

We should go ahead and answer the question.

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

I was mentioning to Jorge that the main change in the increase of food and beverage revenue was basically because of the change of the model of all-inclusive compared to EP in the case of the Reflect Cancun and the increase of production and revenue in the other Reflect hotels in Cabos and Nuevo Vallarta. That was the main change.

On the other hand, the normal increase, it's compared to the same revenue increase that we had in rooms. The main change is because of the model of all-inclusive.

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

Yes. And just to comment there, Paco, when you grow your all-inclusive business, then you have other (inaudible) which covers both the room and food and beverage consumption. Therefore, we do a split of that revenue into the rooms and food and beverage. So automatically, when you have more guests staying at an all-inclusive, automatically food and beverage also grows just to complement [what's forecasted]. I don't know, Jorge, did you hear that or in fact...

**Jorge Lagunas;Apalache Análisis;CoDirector of Research**

Okay. And that was very clear. And the last question is, how long do you expect the operations of the brand Reflect Krystal Grand stabilize?

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

Can you repeat that?

**Jorge Lagunas;Apalache Análisis;CoDirector of Research**

Yes. How long do you expect the operations of the Reflect Krystal Grand to stabilize?

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

Yes. Okay. Well, we are starting to see -- as Paco mentioned at the beginning of the call, we are starting to see better dynamics. So it should be starting this year as we speak -- I mean not stabilize. It's -- let's say that they are picking up. And once they pick up, say, 2 years at the max, stabilizing (inaudible), that growth would be organic, but we should see some growth with the dynamics that we're seeing.



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

And just to recap what happened in those hotels, if you remember, we bought them when they were another brand, then we changed them over to Krystal Grand and then to Reflect Krystal Grand. So since we did the brand change and now it's -- we're in the third brand, that is something -- that is one of the reasons why this maturation has taken longer than what we normally targeted for the 2 years, and then it will be offset by the macro -- current macro [plans].

### **Operator**

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*

Well, thank you very much for joining. Thank you for trusting and your continued support for Grupo Hotelero. And we will also like to reaffirm our commitment to maximize your investment, and thank all of our associates for their constant efforts. And I wish you all a very good day, a great day, a great weekend. But I would also like to add that we believe that we are on the right track, even with the headwinds that we've mentioned and even with the difficulties that the country is facing in terms of economic activity. We hope this year takes a different route and meaning that, that dynamic should improve, and that should as well impact our performance. So thank you very much, and have a great weekend.

### **Operator**

Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect your phone lines and log off of the webinar platform.

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