

CAAP (Corporacion America Airports
S.A.)

Second Quarter 2018 Earnings Results
Conference Call

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CORPORATE PARTICIPANTS

Gimena Albanesi – *Investor Relations*

Martin Eurnekian – *Chief Executive Officer*

Raúl Francos – *Chief Financial Officer*

Jorge Arruda – *Finance and M&A Manager*

PRESENTATION

Operator

Good morning, and welcome to the Corporacion America Airports Second Quarter 2018 Earnings Call. A slide presentation accompanies today's webcast and is available in the investor's section of Corporacion America Airports Investor Relations website at <http://investors.corporacionamericaairports.com>. As a reminder, all participants will be in a listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. As a reminder, today's conference is being recorded.

At this time, I would now like to turn the conference over to Gimena Albanesi of Investor Relations. Please go ahead.

Gimena Albanesi

Thank you. Good morning, everyone, and thank you for joining us today. Speaking during today's call will be Martin Eurnekian, our Chief Executive Officer; and Raul Francos, our Chief Financial Officer. Also with us today is Jorge Arruda, Finance and M&A Manager. All will be available for the Q&A session.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements section of our earnings release and reconciling with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

With that being said, I will now turn the call over to our CEO, Martin Eurnekian.

Martin Eurnekian

Thank you, Gimena. Hello, everyone, and thank you for joining us today. It's a pleasure to welcome you to Corporacion America Airports' second quarter 2018 earnings conference call. I will begin my presentation with a discussion of the highlights of the quarter, and then Raúl will take you through our financial results. Afterwards, I will provide an update on our key business segments and our view for the remainder of the year. We will then open the call for your questions.

Starting with slide number 3, we delivered a solid operational performance this quarter against a difficult macroeconomic backdrop in some of our key markets. Consolidated EBITDA increased by 13% year-on-year despite slower overall travel demand in Argentina and FX depreciation both in Argentina and Brazil. Importantly, ex-IFRIC EBITDA margin expanded over 360 basis points year-on-year to 37% as we continue to execute our strategy of prioritizing development of new routes, frequency, and addition of new airlines while our cost structure largely benefited from the currency depreciation in Argentina. We made capital investments of \$78 million during the quarter, mainly focused on Argentina, Brazil, and Italy as we maintain our focus on further enhancing our airport infrastructure to offer the best travel experience to the passengers while expanding our platform for long-term growth.

Let me also take a moment to highlight the agreement we entered into with Investment Corporation of Dubai announced last month. The Investment Corporation of Dubai purchased 25% of our wholly-owned subsidiary Corporacion America Italia, the controlling entity of Toscana Aeroporti, which operates the Pisa and Florence airports. We also signed a memorandum of understanding to jointly identify and develop future opportunities in the airport sector in Italy, Eastern Europe, and Middle East.

Note that since our IPO, we acquired an additional stake of 11% in Toscana Aeroporti, increasing our share ownership in this subsidiary to 62% from 51%. Following the closing of this transaction, which is expected to take place in the coming weeks, Corporacion America Airports will hold 75% of Corporacion

America Italia and 47% of Toscana Aeroporti. We believe this is an important milestone in our long-term vision of value creation that provides a solid foundation to develop new markets in the future, while keeping our focus on delivering on our growth strategy in key markets, primarily Argentina and Brazil.

Moving on to our regional performance on slide 4, we reported robust traffic growth across most of our countries of operations. Total passenger traffic increased over 7% year-on-year with over 19 million passengers traveling through our airports during the quarter. This was driven by growth across the majority of our market and came along with higher cargo and traffic movements.

Despite currency depreciation and softer overall consumption in Argentina which hurt overall travel demand, traffic in the country rose 6.5% year-on-year. This also brought about a mix shift from international to domestic traffic, with domestic traffic increasing more than 11%, while international traffic growth slowed down to over 1%.

In Brazil, we continue to see a recovery in passenger traffic growth, up over 9% year-on-year this quarter. This was mainly driven by Brasilia airport, which posted an 11% increase, while in Natal, traffic continued its slow recovery trend, growing 1% this quarter, and 4% in June. By contrast, passenger traffic in Uruguay was down almost 1% year-on-year, reflecting the Easter holiday shift and lower passenger demand from key markets Argentina and Brazil.

Italy also posted a good performance with traffic growth of 3.3%, driven by a solid performance in international traffic. We are also encouraged with the 10% growth in passenger traffic we saw in Ecuador.

I will now hand off the call to Raúl Francos, who will review our operations and financial results. Please, Raúl, go ahead.

Raúl Francos

Thank you, Martin. Good day, everyone. I'm pleased to be discussing our group performance during the second quarter of the year. Moving on to the P&L on slide 5, total revenue were up 3.5% year-on-year to nearly \$400 million and almost 2% when excluding construction revenues. Two factors were the main drivers of the slowdown of revenue growth; lower overall travel demand and a mix shift from international to domestic passenger traffic in Argentina given the current challenging environment and the impact of the foreign exchange translation on domestic traffic in both Argentina and Brazil.

Aeronautical revenues were up 1.5% in the quarter, principally reflecting growth in Argentina and Armenia. Brazil reported lower aeronautical revenue, reflecting currency depreciation despite the strong growth in traffic, while Italy faced difficult comps. Commercial revenues were up over 2% year-on-year, thanks to a good performance from our Armenian operation, driven by higher fuel demand and prices. This was further supported by higher commercial revenues in Brazil and in Italy as we continue to enhance our commercial offering together with the appreciation of the euro against the US dollar.

Turning to slide 6, total operating costs and expenses were flat year-on-year and declined 3% to \$235 million dollars when excluding construction cost, mainly benefiting from the currency depreciation as a significant portion of our costs are largely tied to the Argentine pesos and the Brazilian reais. Cost of services, ex-IFRIC, fell 1%, driven by lower salaries in Argentina and Brazil, resulting from currency depreciation, partially offset by higher fuel costs in Armenia and euro appreciation in Italy. An 8% year-on-year reduction in SG&A mainly in Italy and Argentina also contributed to lower costs.

While Italy faced easier comps as marketing support expenses were deducted from aeronautical revenue this quarter, Argentina benefited from regulatory reduction in banking transaction taxes. This was partially offset by higher SG&A in Brazil, resulting from professional service fees in connection with the

renegotiation of the concession fee payment, along with higher costs in Ecuador, Uruguay, and Armenia.

Now moving on to profitability on slide 7, we reported a 13% year-on-year increase in adjusted EBITDA, reaching \$121 million in the quarter. Importantly, adjusted EBITDA margin, ex-IFRIC expanded over 360 basis points to 37% total from 33.5% in the second quarter of 2017. Argentina was the main contributor to this good performance with adjusted EBITDA margin ex-IFRIC up 500 basis points. All other countries of operations contributed to higher adjusted segment EBITDA with margin expansions in our core markets; Argentina, Brazil and Italy.

Before moving on to the balance sheet. Note these robust operating results were impacted by an increase of \$94 million in net finance losses, largely from a non-cash FX loss related to US dollar-denominated debt in Argentina. These losses were partially offset by an income and tax gain of \$20 million compared to an expense of almost \$9 million in the comparable quarter.

Please turn to slide 8. As you can see, we maintain a strong balance sheet that provides a solid foundation to execute on our strategic goals. We closed the quarter with total debt amounting to \$1.2 billion dollars, a slight sequential decline benefiting from the FX translation effect of the Brazilian real denominated debt. Our net debt to trailing 12 months adjusted EBITDA ratio remained stable at 2 times at the end of the quarter. We keep a healthy maturity profile with less than 10% of our debt maturing this year. At the close of the quarter, 58% of our debt was in US dollars, 26% in reais, and 16% in euros.

Let me now turn the call back to Martin, who will go over performance at our key business segments and will comment on our outlook.

Martin Eurnekian

Thank you, Raul. Let me now spend a few minutes going over our main business segments, starting with Argentina on slide 9. Revenues, ex construction, were relatively flat year-on-year despite passenger growth of 6.5%. In addition to experiencing lower overall traffic demand, we also saw a mix shift from international to domestic traffic as global passengers seek to travel to more affordable destinations given the macro headwinds.

Revenues were also affected by the translation effect on domestic traffic from the sharp peso depreciation in the quarter. Measured in local currencies, revenues, ex-IFRIC, in Argentina increased almost 50% year-on-year. As most of our costs in Argentina are peso denominated, our cost structure benefited from the recent currency depreciation. This resulted in adjusted segment EBITDA growth of over 12% to \$79 million in the quarter.

We also made progress this quarter in our goal of further improving our airports in the countries and invested almost \$66 million in Argentina. Funds were mainly allocated to the construction of a new terminal building and improvement to the runway at Ezeiza airport, the remodeling of the terminal at Aeroparque airport, and the construction of a new terminal building and expansion of the parking at Comodoro Rivadavia airport.

Looking ahead, while the depreciation of the Argentine peso is impacting international traffic, we expect to see locals continuing to shift to domestic destinations. Last month, the government eliminated the price floors for the domestic flights to drive traffic growth in the country, which was very well received by the market further fueling domestic travel. We also anticipate that traffic from international passengers coming to Argentina will increase over time to offset the decline we are seeing in residents going out of the country. We remain committed to continue investing in our airports to absorb expected passenger traffic growth and are making good progress in the development of the capex programs for the next years.

Please turn to slide 10 for an overview of our Brazilian operations. Passenger traffic increased over 9% year-on-year as we continue to see a slow economic recovery in the country. The addition of international and domestic routes and frequencies over the last year also supported this good performance. Traffic growth of 11% in April and June was partially mitigated by slower growth in May, impacted by the trucker strike, which limited fuel availability.

Impacted by the FX translation effects from the depreciation of the Brazilian real, revenues were down over 1% year-on-year. On a local currency basis, however, we were up over 10% in the period. We are very encouraged with the 8.5% year-on-year growth in US dollar terms achieved in the commercial revenues, as higher earnings from fuel, VIP lounges and space rentals more than offset this currency depreciation.

Adjusted segment EBITDA in Brazil reached \$2.6 million in the quarter from breakeven levels in the second quarter 2017. Moreover, we achieved an adjusted segment EBITDA margin expansion of over 800 basis points, reaching 8.5% in the quarter, mainly driven by higher operating leverage.

In terms of our capex program, we invested approximately \$2 million this quarter for project engineering, construction of runway safety areas at Brasilia airport, and repair of the glass façade in Natal airport. Looking ahead, we are cautiously optimistic, and we are closely monitoring the macro and political environment.

Turning to Italy on slide 11, despite passenger traffic growth of 3.3%, revenues remained relatively flat year-on-year. Revenues, ex-IFRIC and on a comparable basis, excluding the marketing support expenses, increased 11% year-on-year in dollar terms and over 2% when measured in euros. We are very pleased with the good performance of the recently redesigned VIP lounge and retail stores recently opened at Florence airport, which together with currency appreciation drove a 17% increase in commercial revenues.

Our commercial initiatives, along with healthy traffic, higher operating leverage and the euro appreciation allowed us to deliver an 18% year-on-year increase in adjusted segment EBITDA, while expanding adjusted segment EBITDA margin, ex-IFRIC, by 466 basis points to 28% in the quarter.

Finally, we made investments of almost \$6 million in the quarter aimed at the reconfigurations of the terminal at Florence airport to absorb growth and master plan development. Our investment program scheduled at both airports remains on track, and we expect to begin construction during the fourth quarter of this year.

Looking ahead to the remainder of 2018, we are cautiously optimistic and anticipate overall healthy dynamics and continued growth across our markets. Over the coming months, we see traffic continuing to expand at lower rates in Argentina, given slower overall travel demand and the mix shift from international to domestic travel, given the currency volatility and the removal of price floors making local travel more affordable.

Over time, however, we expect international inbound traffic to pick up on the back of the weaker currency that makes traveling to the country more attractive, compensating for the lower international travel demand from residents. By contrast, as we have demonstrated this quarter, our operating performance is less affected by currency volatility as a significant portion of our revenues are denominated or linked to US dollars, while most of our operational costs are in local currency.

We remain fully committed to continue providing the best travel experience across our airports, developing new routes, and frequencies while never losing sight of our focus on further strengthening our

global platform for our long-term success. And our strong balance sheet provides a solid foundation to support our strategic initiatives.

We are now ready to take questions, please. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

Yes, thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. In order to allow all listeners to participate, please limit yourself to one question and one follow-up question. At this time, we will pause momentarily to assemble our roster.

And the first question comes from Ian Zaffino from Oppenheimer. Please go ahead.

Mark Zhang

Hi, good morning guys. This is Mark on for Ian. So thank you guys for all the color on the operations. I think the question for us will be can you guys speak a little bit more on the partnership with the Corporation of Dubai in terms of opportunities in the pipeline, potential transaction size, or any sort of deal structure you guys could give color on right now? Thank you.

Jorge Arruda

Okay. Thank you very much for your question. This is Jorge Arruda, and I will address your question. So, as Martin has explained, we sold 25% of Corporacion America Italia and I also signed an MOU with the firm, with ICD, to jointly look at opportunities in Italy, Middle East, and Eastern Europe. Right now, there is nothing concrete that we are looking at. We expect actually to close the deal of the 25% sale in the coming one to two weeks, and we'll then sit down with ICD and define our strategy. But again, there is nothing concrete at this stage, neither in terms of target nor in terms of the deal structure.

Mark Zhang

Okay, got you. That's fair. And then just a follow-up. Can you guys just provide an update on any AA2000 discussion with the Argentinian government? And is there any chance for an early renewal? Or can you provide a rough timeline in terms of the ruling and how the conversations have been progressing? Thank you.

Martin Eurnekian

Okay. Thank you for your question. This is Martin here. As anticipated, we continue to work on capex programs with the government defining what airports are going to intervene and the size of this intervention, including the design of the projects and so on. Regarding conversations, we are still waiting for the government to finish this consultancy process that, as far as we know, is a little bit delayed. And we're waiting for that process to finish to be able to commence talks on not on the capex program, but on the future of the concession.

Mark Zhang

Okay, great. Thank you very much.

Operator

And our next question comes from Stephen Trent from Citi. Please go ahead.

Stephen Trent

Good morning gentlemen, and thanks for taking my questions. I just wanted to get your take on the latest you're seeing with respect to some of the discount airlines that have been moving into some of the South American market. So we've seemed on our side to see some pickup in activity in Chile, which I know you guys don't have an airport, and we've seen some activity in Argentina. Just wondering if you could kind of give us a little more granularity on what's happening there?

Martin Eurnekian

Thank you for your question Stephen. On our side, looking from the Argentinian market, the most important thing is this government's focus on development of this industry in air traffic. In that sense, you can call it low-cost carrier, ultra low-cost carrier or legacy carriers. The most important thing for us is the fact that the government is allowing the industry to build a healthy ecosystem of companies competing for passengers that are basically creating a bigger market, and that is where we, as airport operators, are helping and working along with the government to promote this growth, which is the basis, the biggest driver for our company.

So, we basically welcome all new companies that are thinking of starting or developing routes in the region and mainly to airports that we serve. Of course, in Argentina, we're seeing again, movement from Norwegian that continues its plan to set up base in Argentina, also some Chilean airlines that are requesting for flight permits to fly into Argentina. And, we see all that as a very healthy move into making the passenger market bigger. Also, as we mentioned, the fact that the government has removed the tariff floor restrictions that were in place in Argentina, it's moving the same direction for domestic travelers. And all of that, we think, is part of a mutual cycle in the growth of the industry as a whole.

Stephen Trent

Okay, great. I really appreciate that. Thank you. And, I know that you already fielded the question with respect to the Dubai's investment, and you mentioned Italy, Eastern Europe, and the Middle East. And what about other markets? There's that Jamaican auction that seems to be dragging on? Anything else you're looking at whether in the Americas, Jamaica, or perhaps some of the airports that Brazil may auction in the next several months?

Jorge Arruda

Hi, it's Jorge, again, here. So currently, we are spending time on the so-called fifth round in Brazil. We have three blocks that are going to be privatized and we are spending time on those. Recently, the government planned to issue the tender documents this year and carry out the auction this year. It seems that the tender documents will be published this year, but the auction will actually take place next year. But again, we have a full deal team looking at all aspect. We don't have a final conclusion yet, but we are working on this. Other than that, there are other bits and pieces we are looking at, but nothing concrete to report to you guys at this stage.

Stephen Trent

Okay, Jorge. I appreciate that and let me leave it there. Thank you.

Operator

And, once again, if you would like to ask a question, you may press star then one. Once again, that is star then one to ask a question.

CONCLUSION

Operator

At this time, there are no further questions. Please, sir, go ahead.

Martin Eurnekian

Let me take this chance to thank everybody for participating and taking an interest in Corporacion America Airports. Thanks, again, and all the team has its efforts into continuing on our strategy, and we are here to support any questions, our Investor Relations team is always available. Thank you very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.