

Corporación América Airports, S.A.

Third Quarter 2019 Earnings Results
Conference Call

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CORPORATE PARTICIPANTS

Gimena Albanesi - *Head of IR*

Martín Antranik Eurnekian – *Chief Executive Officer*

Raúl Guillermo Francos – *Chief Financial Officer*

Jorge Arruda - *Finance and M&A Manager*

PRESENTATION

Operator

Good morning, and welcome to the Corporación América Airports Third Quarter 2019 Earnings Call. A slide presentation accompanies today's webcast and is available in the Investors section of Corporación América Airports Investor Relations website at <http://investors.corporacionamericaairports.com>. As a reminder, today all participants will be in listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. As a reminder, this call is being recorded.

At this time, I would like to turn the call 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 Martín Eurnekian, our Chief Executive Officer; and Raúl 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 recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances. Note that for comparison purposes and a better understanding of the underlying performance, in our presentation today we will be discussing results excluding hyperinflation accounting in Argentina, which became effective July 2018. Additional information in connection with the application of rule IAS 29 can be found in our earnings report.

Now let me turn the call over to our CEO, Martín Eurnekian.

Martín Antranik Eurnekian

Thank you, Gimena. Hello, everyone, and thank you for joining us today. It's a pleasure to welcome you to Corporación América Airports' third quarter 2019 earnings conference call. I will start my presentation today with an overview 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 to your questions.

Beginning with slide 3, ongoing unfavorable market conditions in Argentina, our largest market, and to a lesser extent in Brazil, continued to impact our performance this quarter. Passenger traffic was up slightly over 1%, with over 22 million passengers traveling through our 52 airports in the quarter. Domestic and international traffic increased nearly 4% and 3%, respectively, while transit passengers fell 13%, impacted by weaker traffic in Brazil.

Adjusted EBITDA, excluding inflation accounting, declined 25% year-on-year, with the margin ex-IFRIC contracting to nearly 32% from 41% in the year-ago quarter when we had posted a robust margin expansion of over 470 basis points. This was mainly due to a bad debt provision in Argentina. Excluding these, the adjusted EBITDA margin ex-IFRIC for the quarter would have been 39%, down only 170 basis points.

We saw better margins this quarter in Armenia, Uruguay and Ecuador, along with relatively stable margin in Italy. In Argentina, we continue to experience a mix shift towards more affordable domestic traffic, weaker commercial revenues and the translation impact of FX devaluation. Brazil, in turn, remains affected by the cessation of operations of Avianca Brasil.

We invested \$120 million in the quarter as we continue to enhance our airport infrastructure, with the term goal of further strengthening capacity to capture future growth and add to the passenger travel experience. Funds were mainly allocated to Argentina as we moved ahead with works at Ezeiza Airport. We also made capital investments in Ecuador and Italy.

Importantly, during the quarter, the National Airports Regulatory Organization of Argentina approved new maximum passenger use fees to be charged effective January 1, 2020. I will discuss more about this in a few minutes.

Turning to slide 4. Total traffic growth decelerated to slightly above 1% year-on-year from 4% in the prior quarter. A good performance in Argentina, Armenia and Peru was mitigated by weaker traffic in Brazil, and to a lesser extent, in Italy and Uruguay.

In Argentina, traffic was up nearly 8% year-on-year. We saw a continued mix shift toward domestic travel, which was up 10% year-on-year. International traffic in turn posted a slight increase in August and September, ending the quarter up nearly 1% year-on-year, improving from the 6% year-on-year drop experienced in the prior quarter.

Traffic in Brazil remains negatively affected by the cessation of operations of Avianca Brasil last May, which resulted in a year-on-year decline of nearly 12% in total traffic. On a positive note, in September, GOL launched additional routes in line with its strategy to expand operations at Brasilia Airport.

In Italy, traffic declined slightly over 1% year-on-year, while traffic was up 3% at Florence Airport fueled by the addition of new airlines, routes and frequencies. Pisa Airport posted a decline in a similar magnitude as the quarter remained impacted by a reduction of operations by two local carriers.

Our other airports posted a mixed performance. Passenger traffic was up 17% in Armenia, benefited from the addition of new airlines and flights, while traffic in Peru increased over 5% this quarter.

By contrast, traffic in Uruguay was down nearly 3% year-on-year, impacted by a temporary cancellation of a route to Bogotá, Colombia, which is anticipated to resume in December, together with lower traffic flow from Argentina.

In Ecuador, traffic was temporarily affected by the closure of the airport during September weekend as we renovated the runway and taxiways. This resulted in a 4% drop in traffic, more than offsetting the good performance in July and August, driven by new international routes and frequencies.

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

Raúl Guillermo Francos

Thank you, Martin. Good day, everyone. As Gimena noted at the beginning of the presentation, for a better understanding of our performance we will discuss our results, excluding the impact of hyperinflation in Argentina.

Starting with revenue on slide 5. Adverse macro conditions in Argentina continue to impact our top line in this quarter, and we are also facing some temporary challenges in Brazil and Italy. On a comparable basis and excluding construction revenues, total revenue fell 4% year-on-year.

Aeronautical revenues declined almost 2%, mainly as a result of the mix shift to domestic from international traffic in Argentina and the FX translation impact on domestic revenue from strong currency

depreciation.

In Brazil, aeronautical revenue was mainly affected by the decline in traffic and lower aircraft fees, which more than offset the increase in international traffic. In Italy, while lower traffic was offset by higher tariffs, revenue growth was impacted by currency depreciation.

By contrast, we delivered a good performance in Armenia, which posted another quarter of revenue growth due to increased traffic, partially offset by euro depreciation.

Moving on to commercial revenues. The 8% decline year-on-year mainly reflected lower cargo activity, coupled with lower-duty free sale arising from weaker demand in Argentina as well as the FX translation impact on local currency revenues.

To a lesser extent, commercial revenues in Brazil were impacted by lower advertising, food and beverage and parking revenues. While in Italy, the 5% local currency growth was offset by the euro depreciation. Armenia continued to perform well, posting another quarter of commercial revenue growth, supported by higher fuel demand and prices.

Moving to our cost structure on slide 6. During the quarter, total operating cost and expenses ex-IFRIC 12 increased 7.5% year-on-year, mainly impacted by a \$23 million bad debt charge recorded in Argentina related to over a year accumulated past due commercial revenues and aircraft fees from a local airline. Cost of services ex-IFRIC 12 fell 1% year-on-year, mainly due to lower concession fees in our main market, partially offset by higher cost of fuel in Armenia.

Now please turn to profitability on slide 7. Adjusted EBITDA ex-IFRIC declined 25% year-on-year to \$102 million in the quarter. The margin contracted to 32%, mainly impacted by the bad debt charge in Argentina, together with lower cost dilution in both Argentina and Brazil due to softer top line growth. This was partially offset by a solid margin improvement in Uruguay. Excluding the bad debt charge, adjusted EBITDA would have been \$125 million and adjusted EBITDA margin ex-IFRIC would have been 39%.

As you can see on slide 8, our financial position remains strong. As we mentioned in our previous call, in August, our Argentine subsidiary entered into two credit facilities for a total amount of \$120 million, which will be used to fund our capex program in this country. This transaction was particularly important in the current volatile environment, as it provides us with enough financial liquidity to support business needs when investing for future growth. As a result, we ended the quarter with a cash position of \$258 million and net debt of \$953 million. Net debt to last 12 months adjusted EBITDA stood at 2.1 times.

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

Martín Antranik Eurnekian

Thank you, Raúl. Moving on to Argentina on slide 9. Revenues ex-IFRIC were down 9% year-on-year as adverse macro conditions continue to impact our financial performance in this market.

First, we continued to experience a mix shift to more affordable domestic destinations. Domestic traffic was up 10%, reflecting new routes and frequencies operated by low-cost carriers and increased promotional activity. This compares with a nearly 1% increase in international travel, which posted a temporary recovery from the 6% year-on-year drop observed in the second quarter of 2019.

Second, lower cargo and duty-free revenues, partially offset by higher VIP lounges and advertising revenues, resulted in a decline in commercial revenues this quarter.

And third, results were also impacted by the FX translation impact from the peso depreciation, which impacted our local currency aeronautical and commercial revenues.

Adjusted segment EBITDA fell 42%, while adjusted EBITDA margin ex-IFRIC 12 contracted to 28% from 45% in the same quarter last year. Excluding the bad debt charge in the quarter discussed earlier, adjusted EBITDA margin, excluding IFRIC 12, would have declined only 200 basis points to 43% in the quarter, reflecting lower cost dilution.

During the quarter we invested \$104 million in Argentina, with funds mainly allocated to works at Ezeiza and Aeroparque airports as well as several other airports in the country. Note that the opening of the new departure terminal at Ezeiza has been delayed due to a construction incident that halted construction while being investigated by the appropriate organizations.

We expect construction work at Ezeiza to be completed during the second quarter of 2020. In the meantime, we have progressed with works in adjacent buildings and the multilevel parking at this airport, which is expected to be finalized by the end of this month.

We also advanced on the landfill for the construction of a new car parking facility on Costanera Avenue at Aeroparque Airport. During the third quarter, we also progressed with the construction of the new terminal building at Iguazu and Jujuy airports; the expansion of the terminal buildings at Bariloche, Mar del Plata and Esquel airports, among other investments across our airport network.

Finally, a key event in the quarter was the increase of passenger use tariffs effective January 1, 2020 as a result of the 2017 economic equilibrium revision. The new tariff framework implies a 4% increase in international tariffs to \$51 from \$49 today and a 162% increase in domestic tariffs to 195 pesos from 74 pesos today.

In connection with the 2016 economic equilibrium revision, we have filed a judiciary claim against the National Airports Regulatory Organization for it to declare that revision null and to redo it in accordance with the applicable regulation.

Please turn to slide 10. Looking at Italy, total passenger traffic was down slightly over 1% year-on-year. Florence Airport posted a 3% increase in traffic, supported by new routes and frequencies. These were mainly routes from low-cost carrier Vueling to several new destinations across Europe as well as additional flights to Paris by Air France and to Madrid by Iberia. Good customer response to SAS flights to Copenhagen added last April and to a new flight to Dusseldorf by low-cost carrier Eurowings, also contributed to higher traffic at Florence Airport. This was more than offset by a 3% decline in traffic at Pisa Airport, as Pobeda reduced its operations in the quarter.

Late in the quarter, with the launch of new routes to Brussels and Prague, among others, we also saw a slight pickup in operations by Ryanair. This follows the contractions experienced since April.

Revenues ex-IFRIC 12 were down close to 3% year-on-year, impacted by a nearly 5% depreciation of the euro. In local currency, however, aeronautical revenues were flat, driven by higher passengers with restricted mobility fees applicable since February, offset by the decline in passenger traffic.

Commercial revenues in local currencies were up 5%, reflecting new advertising and car rental agreements at Florence Airport as well as good performance in VIP lounge revenues from the opening of new areas. Combined higher aeronautical and commercial revenue more than offset weaker passenger traffic.

Our Italian operations posted solid profitability. Despite the decline in traffic and the euro depreciation, adjusted EBITDA margins ex-IFRIC 12 remained stable at 37% year-on-year.

Turning to capex. We invested \$3 million this quarter, mainly in the master plan development at Florence Airport, preliminary works related to the expansion at Pisa Airport, together with new equipment at both airports.

Now an update on the Florence Airport expansion program. The final audience intervention review by the Environmental Impact Assessment is scheduled for November 28, 2019. If the outcome of the audience is favorable, we expect to begin work by spring 2020.

Remember, this project had been delayed and we filed an appeal against the judgment that overturned the favorable Environmental Impact Assessment decree for the project outlined in the 2014-2029 master plan.

Finally, our plan to expand the terminal building at Pisa Airport to accommodate Pisa traffic growth remains on track, with construction expected to begin during the first half of next year.

Now please turn to slide 11 to review our Brazilian operations. The cessation of operations of Avianca Brasil represented a drop in passengers of 15%, partially offset by the growth of other airlines, resulting in a nearly 12% year-on-year decline in traffic. Looking to offset this, we have remained focused on adding new domestic and international routes. For example, GOL, in partnership with Passaredo, added 3 domestic routes at Brasilia Airport. Latam also just launched a new international route in Chile and is expected to launch two more to neighboring countries before year-end. We are also making progress at Natal Airport, with Latam, Azul and GOL, adding a total of 9 new routes and frequencies by year-end.

Revenues were down 4% against last year, impacted by lower aeronautical and commercial revenues, while the exchange rate remained stable year-on-year.

Aeronautical revenues were down 5%, impacted by the cessation of Avianca Brasil's operations and lower aircraft fees, partially offset by a 41% increase in higher-margin international traffic. Commercial revenues, in turn, fell 4% as lower advertising, parking, and food and beverage more than offset higher revenues from continued good performance of our VIP lounges.

In terms of profitability, adjusted EBITDA declined 29% to \$4 million in the quarter, with margin contracting to 16% from 21% in the third quarter of 2018. We saw lower cost dilution as we benefited from a bad debt recovery in the third quarter of 2018, partially offset by lower concession fee charges.

We have begun construction of the pick-up plaza at Brasilia Airport, which is expected to be completed by the first quarter of 2020. The plaza will be a central location for all car-hailing companies, in particular, Uber, as well as most of the car rental operations at the airport, with drivers and passengers congregating in one location, which gives us the opportunity for a new revenue source, particularly for food and beverage and advertising. The first Starbucks in Brasilia will be located here as well.

Now please turn to slide 12, to review our Uruguayan operations. The cancellation of a daily route to Bogota and weak travel demand from Argentina continues to weigh on passenger traffic. Avianca has indicated it expects the Bogota to Montevideo route to resume in December. Revenues ex-IFRIC 12 were down nearly 4% year-on-year, driven by lower aeronautical and commercial revenues.

Commercial revenues, in turn, fell 4%, reflecting lower duty free and parking revenues resulting from softer demand from Argentine passengers, coupled with the FX translation impact from the 13% currency

depreciation. Lower cargo activity also contributed to lower revenues. Higher VIP lounge revenues from new commercial agreements signed in the quarter partially offset the decline.

Despite the weaker top line, adjusted EBITDA was up nearly 1% to \$14 million, with margin ex-IFRIC 12 expanding 200 basis points to 51% in the quarter. Higher profitability was supported by lower maintenance costs and SG&A expenses.

Now to wrap up, turn to slide 13. Looking ahead, we remain focused on executing on our long-term strategy as we navigate in an adverse environment in Argentina and weak dynamics in Brazil. In Argentina, our key market, while we face complex macro dynamics and low near and medium-term visibility, we have a resilient business with a successful track record of operating in different macro cycles.

Over 80% of revenues are denominated in U.S. dollars, further supported by a solid balance sheet. We continue advancing on our investment programs to capture additional growth when the economy recovers.

In Brazil, traffic and profitability remain impacted by weak economic growth, and cessation of operations of Avianca Brasil. Avianca's former capacity at Brasilia Airport is expected to be gradually restored by the 3 other carriers with domestic operations in the airport starting towards year-end.

In Italy, we expect to deliver positive traffic growth this year, while we continue to monitor the evolution of Alitalia and the development of Brexit. We have also begun works for the expansion of the terminal building at Pisa Airport, which will continue into next year, and expect to accelerate investment at Florence in 2020.

In conclusion, while in the near term we continue to face several headwinds in Argentina and Brazil, we remain focused on executing on our investment plans to better position the company to resume growth as macro conditions in Argentina improve.

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

QUESTIONS AND ANSWERS

Operator

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 are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow-up. If you would like to ask further questions, please re-queue for additional questions. At this time we will pause momentarily to assemble our roster.

Today's first question comes from Ian Zaffino of Oppenheimer. Please proceed.

Mark

This is Mark on for Ian. Thanks for taking our questions. So just to start off, going into the bad debt expense this quarter, can you guys provide some more information on exactly how the mechanics of the expense came forward and how it works? And are there any additional bad debt or past due fees that we should be aware of going forward? Thanks.

Operator

Just as a note to the speaker line, your line is unmuted. You may be locally muted at your telephone.

Mark

Hello. Can you hear me now?

Martín Antranik Eurnekian

Hello. This is Martin again here. I will ask Raúl to intervene if needed. The bad debt provision that we have, it's an aging issue of unpaid fees - aeronautical fees and commercial fees from the main carrier of Argentina. And the fact that we provisioned it is a matter of aging and accounting rules. Basically, they started missing a part of their payments since August last year, and since it's been a year, we had to provision that, although this airline is controlled by the state and we believe one way or another this is not going to turn into a real loss.

Mark

Okay, great. Thank you. And then just a follow on, just in terms of are there any updates to negotiations for the AA2000 concessions, just given where the election results have come out? And any sort of color or incremental detail there would be much appreciated. Thank you.

Martín Antranik Eurnekian

Thank you. This is Martin again. As you mentioned, we are in the transition to a new government. This doesn't change our view regarding the state of the concession and everything that the concession has gone through over the last 20 years, basically. And although we now have to establish a new relationship with a new team that will come in since a couple of weeks from now - starting a couple of weeks from now, we still strongly believe that the extension clause will be executed at some point, and we are eager to start negotiations with the entering government.

Mark

Okay, great. Thank you very much.

Operator

As a reminder, if you do have a question during today's conference you may press star then one on your touchtone phone.

Our next question comes from Stephen Trent of Citi. Please proceed.

Stephen Trent

Thank you, everybody. Good morning and thanks for taking my question. I just had a quick one also relating to AA2000, like the gentleman from Oppenheimer. I'm curious, you gave some very helpful color on what's going to happen with AA2000 tariffs starting in January, but then you also said that there's a legal dispute that is going on between you and the regulator in Argentina. And if you could just help me out, what exactly you're disputing, the tariffs that are going up in January? Or this is a separate adjustment on the guaranteed IRR? Thank you.

Martín Antranik Eurnekian

Thank you, Stephen. This is Martin again. As you know, the regulator has to review every year the concession equilibrium. During this administration, they haven't done it yet, so they released the 2016 revision and the 2017 revision very close to each other. The 2016 revision did not come with a tariff adjustment, so we contested that quite strongly, actually, because instead of going into the administrative process we went into the judiciary to make a claim for this. And then they released the 2017 revision, which included \$2 addition in international fees and the domestic from 74 pesos to 195 pesos.

Stephen Trent

Okay, got it. And as a quick follow-up to that, and thank you, Martín, is it fair to say that you are going

into the current discussions with some negotiating power, considering that you're still owed on the guarantee for some years and the government's flag carrier maybe still owes you some back payments. How should investors think about that?

Martín Antranik Eurnekian

Well, yes, although we do not like to provision for bad debts, the situation with Aerolíneas about this bad debt that we have, being controlled by the state, we believe that it's going to give us room for negotiation in terms of how that is repaid or how is it handled. And yes, what you mentioned before regarding what could entail the economic equilibrium revisions and the fact that we went over the requirements of investments so far, we think that this puts us in a very good position to negotiate the terms of the concession with the government.

Stephen Trent

Okay, very helpful, Martín. Thanks very much.

CONCLUSION

Operator

This concludes our question-and-answer session. At this time, I would like to turn the conference back over to Martín Eurnekian for any closing remarks.

Martín Antranik Eurnekian

Thank you, everybody, for joining us today. We really appreciate your interest in our company. We look forward to meeting more of you over the coming months and providing financial and business updates in the next quarter. In the meantime, our team remains available to answer any questions that you may have. Thank you again, and enjoy the rest of your day. Bye-bye.

Operator

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