

Corporación América Airports S.A.

Second Quarter 2019 Earnings Results
Conference Call

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CORPORATE PARTICIPANTS

Gimena Albanesi - *Head of Investor Relations*

Martín Eurnekian - *Chief Executive Officer*

Raúl Francos - *Chief Financial Officer*

Jorge Arruda - *Finance and M&A Manager*

PRESENTATION

Operator

Good morning, and welcome to the Corporación América Airports Second 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, all participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. There will be an opportunity for you to ask questions at the end of today's presentation. As a reminder, this call is being recorded.

And 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 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'll 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 Eurnekian

Thank you, Gimena. Hello, everyone, and thank you for joining us today. It's a pleasure to welcome you to Corporación América Airports second quarter 2019 earnings conference call.

I will begin 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.

Starting off with an overview of our performance on slide 3. We are operating in a challenging environment, particularly in Argentina, our largest market, and to a lesser extent in Brazil. Operations in Argentina remain impacted by weak macro and currency depreciation. In turn, we saw a continued mix shift towards more affordable domestic traffic, weaker commercial revenues and the negative FX translation impact on local currency revenues.

While we also experienced softer traffic in Brazil, results from Brazil and Italy were also affected by currency depreciation.

Close to 20 million passengers traveled through our airport network in the quarter, up nearly 4% year-on-year, as we continue to add new routes and airlines. Domestic traffic increased 9%, while international traffic was down in the low-single-digits.

Comparable Adjusted EBITDA, excluding inflation accounting and a one-time item that Raúl will discuss shortly, declined 9% year-on-year, with the margin ex-IFRIC remaining flat at 37%. Better margins this quarter in Italy and Uruguay were more than offset by margin contraction in Argentina, Ecuador and Armenia. Despite this near-term headwinds, we continue to make the necessary investments that will enhance the passenger travel experience and increase capacity to capture future growth.

In the second quarter, we invested \$108 million. Majority of the funds were allocated to expand and modernize our airports in Argentina. In particular, we have been making very good progress on the construction of our new terminal at Ezeiza International Airport, which we expect will be inaugurated this coming September. Investments were also made in Armenia and Ecuador.

Moving on to slide 4. Total traffic growth of close to 4% year-on-year was mainly driven by solid expansion in Argentina, which offset a weaker performance in Brazil. Note we faced easier comps from the shift in the Easter holidays, which this year took place in April, while last year it was in March.

Argentina delivered 12% year-on-year growth in traffic, driven by sustained mix shift to our domestic travel, which continued to expand at a solid pace, up 22% year-on-year. This more than offset a 6% drop in international traffic.

In Brazil, traffic was negatively impacted by the cessation of operations of Avianca Brasil in May. The combination of these factors resulted in a nearly 10% year-on-year decline in traffic.

Traffic in Italy was flat year-on-year. Growth of 5% year-on-year at Florence Airport, driven by the addition of new airlines, routes and frequencies was offset by low single-digit decline at Pisa Airport, reflecting the reduction of operations by a Russian low-cost carrier.

Our other markets posted improved performance as the Company continues to execute its strategy of expanding the number of airlines, routes and frequencies across its airports. Passenger traffic was up 9% in Armenia, which also benefited from improved political conditions. In Ecuador, while total traffic was up 2% year-on-year, international traffic increased 8%, driven by a wider offering and higher demand. Peru traffic recovered to mid-single-digit growth from the 6% drop experienced in the prior quarter, while Uruguay also posted a slight improvement in traffic trends compared to the prior quarter.

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

Raúl Francos

Thank you, Martín. 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 revenues on slide 5. Top-line growth remains impacted by difficult macroeconomic conditions in Argentina. On a comparable basis and excluding constructional revenue, total revenues fell 7% year-on-year. Aeronautical revenues declined almost 4%, mainly as a result of the mix shift to domestic from international traffic in Argentina and the FX translation impact from domestic revenue from the strong currency depreciation.

In Brazil, our aeronautical revenues were mainly affected by the decline in traffic and currency depreciation, which basically offset the benefit from the August 2018 increase in tariffs at Brasilia Airport and the significant growth in international traffic. We are very encouraged with the results we are seeing

in Ecuador, which posted another quarter of revenue growth fueled by higher international passenger traffic at the Guayaquil Airport.

Moving on to Commercial revenues, we saw a decline close to 12% year-on-year, mainly affected by lower cargo imports and softer passenger demand in Argentina, as well as FX translation impact on local currency revenues in Argentina and Brazil. In local currency, commercial revenues in Brazil increased close to 4% mostly due to higher cargo volume, VIP lounge and advertising revenues, among others. Armenia posted another quarter of commercial revenue growth supported by higher fuel demand. In Italy, revenues in local currency increased 10% fueled by new commercial agreements with car rentals and higher VIP lounge and food and beverage revenues, stemming from the remodeling of some commercial areas at our airports.

Moving to our cost structure on slide 6. As we noted in the past, a significant portion of our fixed costs are denominated in local currency. Therefore, the FX depreciation in our main markets offset the lower fixed costs dilution resulting from the decline in revenues. Total operating cost and expenses ex-IFRIC 12 declined in line with revenues.

Cost of services fell 5% year-on-year, mainly due to lower maintenance costs in Argentina and Brazil, which benefited from currency depreciation, as well as lower concession fees and labor costs in our main markets. Cost of services also benefited from a \$2.2 million one-time gain arising from the positive outcome of a legal claim against the Ministry of Transport in Italy.

SG&A declined almost 18% year-on-year, supported mainly by lower sale taxes and labor costs in Argentina, as well as lower professional fees at the holding level. This was partially offset by higher bad debt charges in Argentina and Brazil related to commercial activities.

Now, please turn to profitability on slide 7. Adjusted EBITDA ex-IFRIC declined nearly 7% to \$113 million in the quarter. Excluding the \$2.2 million one-time gain in Italy, comparable EBITDA was 9% lower year-on-year, while the margin remained flat at 37%. Solid margin improvement in Italy and Brazil this quarter was offset by a weaker performance in Argentina.

As you can see on slide 8, our financial position remains healthy. This is particularly important in the current macro environment. Our priority is to drive shareholders value and we will continue to maintain adequate cash level to support business mix, while investing for future growth. We ended the quarter with a cash position of \$222 million and net debt of \$915 million. Net debt to last 12-month Adjusted EBITDA was 2.1 time, up from 2.0 times in March 2019.

I would also like to comment on a transaction we recently completed. On August 9, our Argentine subsidiary entered into two credit facilities for a total principal amount of \$120 million. These loans will mature on the third anniversary of the execution date. Proceeds will be used for the development of the various capex programs across our Argentine concession.

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 Eurnekian

Thank you, Raúl. Starting with Argentina on slide 9, revenues ex-IFRIC declined 14% year-on-year, as the macro backdrop continues to impact our financial performance in several ways.

First, we saw continued mix shift from international travel to more affordable domestic destinations. Domestic travel rose 22% year-on-year, driven by new routes and frequencies operated by low-cost

carriers, along with higher promotional activity. By contrast, international travel declined nearly 6%. As per the National Statistics and Census Institute, within international traffic, inbound traffic by non-nationals rose 18%, mainly from neighboring countries, while travel by nationals fell 15%.

Second, Commercial revenues were lower. This was due to declines in duty-free sales and in cargo activity.

Finally, the FX translation effect resulting from the 86% quarterly average year-on-year depreciation negatively impacted local currency aeronautical and commercial revenues.

In terms of profitability, Adjusted Segment EBITDA declined 15%, while Adjusted EBITDA margin ex-IFRIC 12 contracted 80 basis points to nearly 43% in the second quarter 2019. As anticipated in prior calls, the impact from higher inflation on cost of services more than offset the benefit from the currency depreciation on our peso-based costs, as inflation is catching up with the peso depreciation.

We have made significant progress on our capex program this quarter, investing \$87 million. Funds were mainly allocated to the construction of the new departure terminal building and multilevel parking at Ezeiza Airport. The goal is to enhance the travel experience, increase capacity and drive higher operating efficiencies. The new terminal that will concentrate all domestic and international departures will account with nearly 150 checking counters and 60 self-check in kiosks, as well as new commercial areas and the new multilevel parking connected to the terminal. We are on track to complete the new terminal building during the third quarter of 2019.

This quarter, we also inaugurated the new terminal building at Comodoro Rivadavia Airport, a fully sustainable building. We are also making progress on the landfill for the construction of a new car parking facility on Costanera Avenue at Aeroparque Airport. The investments also included the construction of the new terminal buildings at Iguazú and Jujuy Airports, as well as improvements to the runway and taxiways at Córdoba Airport. We also made terminal expansions, as well as various capex programs across several of our regional airports in Argentina.

Moving on to Italy on slide 10. Passenger traffic was stable year-on-year. Florence Airport delivered a strong performance with traffic up 5%. In addition to easier comps due to a pilot strike last year and the Easter holiday effect this quarter, traffic growth at Florence Airport was also driven by the good performance of TAP airlines, additional flights by Iberia, the addition of SAS airlines and the new route by Eurowings. This offset weaker performance at Pisa Airport as Pobeda reduced operations in the quarter.

Revenues ex-IFRIC 12 were flat year-on-year impacted by 8% depreciation of the euro. In local currency, however, aeronautical revenues were up 6% benefiting from lower marketing support expenses together with increases in the Passenger with Reduced Mobility fee granted last February. Commercial revenues in turn were up 10% in local currency, driven by new commercial agreements with car rentals at Pisa Airport, as well as from new food and beverage tenants at both airports. New VIP lounge agreements also contributed to this increase.

Our Italian airports delivered strong profitability supported by higher cost dilution. Comparable Adjusted EBITDA, excluding a one-time gain from a legal claim, was up 9% year-on-year, while the ex-IFRIC 12 margin increased 247 basis points to 30% in the second quarter 2019.

Moving on to capex and a few words about the Florence Airport expansion program. As you might recall, this project has been delayed. An appeal has been filed against the judgment that had overturned the favorable Environmental Impact Assessment decree for the project outlined in the 2014-2029 Master

Plan. As we have more information, we will keep the market informed.

While we wait for clarification, we made capital investments for \$5 million in Italy this quarter, mainly on the master plan development at Florence Airport and new equipment at Pisa Airport.

Finally, let me note that our plan to expand the terminal building at Pisa Airport to accommodate expected passenger growth remains on track and we expect works to begin by the end of the year.

Now please turn to slide 11 for a discussion about Brazil. Total traffic declined almost 10% year-on-year, reflecting a similar decline in domestic passengers, mainly driven by the cessation of operations of Avianca Brasil. While traffic this quarter was impacted by these external events, we remain focused on adding new domestic and international routes and expect these efforts to act as a counterweight in the near future. Last June, Gol started a direct flight to Cancún from Brasilia Airport, the fourth international flight announced over the last nine months and has also announced the addition of several domestic frequencies, as it continues to expand its operations in Brasilia.

Local currency revenues increased 2% year-on-year, mainly driven by commercial revenue growth. Despite weak traffic volume, our VIP lounge continued to perform well and we also benefited from higher cargo volume. We continue to work with our concessionaires to enhance our commercial offering and this quarter, we added six new food and beverage operations.

This month, we are starting construction of the pickup plaza at the Brasilia Airport, which is expected to be completed early next year. The plaza will concentrate all pickup of car-hailing companies, in particular, Uber, and some of the car rentals, creating a new gravity center allowing to create new revenues, particularly in food and beverage.

Aeronautical revenues in local currency were flat, as the decline in passenger traffic was offset by increase in tariffs at Brasilia Airport that took place in August 2018, and the significant growth in international traffic. However, the 9% FX depreciation of the Brazilian real in the period resulted in a 7% decline in 'as reported' revenues.

In terms of profitability, Adjusted EBITDA in this quarter increased 18% to \$3 million, with the margin expanding 220 basis points to 11%, which was driven by lower concession fees, partially offset by deleverage in SG&A expenses as a result of higher bad debt charges, mainly from certain commercial tenants. In July, we made a capital injection on our Brazilian subsidiary to meet the annual payment of the concession fee. While second quarter results were worse than expected due to Avianca Brasil and weak macro conditions, we remain encouraged with the long-term potential of our Brazilian airports.

Now please turn to slide 12 to review our Uruguayan operations. Traffic at Uruguay remained impacted by the cancellation of a daily route to Bogotá and weak travel demand from Argentina. However, we saw an improvement on the back of easier comps from the Easter and winter holiday shifts. Despite the weak traffic performance, revenues were flat year-on-year.

Higher aeronautical revenues were driven by an increase in passenger fee together with the increase in international traffic from higher-margin routes. Commercial revenues were impacted by a decline in duty-free and parking revenues as a result of softer demand from Argentine passengers, coupled with the FX translation impact from the 16% currency depreciation. This was partially offset by higher VIP lounge revenues from new commercial agreements signed in the quarter.

Turning to profitability, Adjusted EBITDA was up 2% to \$12 million, with margin ex-IFRIC 12 expanding 91 basis points to 45% in the quarter. Lower cost of services more than offset the impact of a new

variable compensation policy and higher SG&A. Our cost structure also benefited from currency depreciation, together with lower utilities fees, resulting from the implementation of a solar energy generation system. In addition to contributing to savings in energy costs, this initiative reinforces our commitment to sustainability.

Now to wrap up, turn to slide 13. Looking ahead, despite the challenging times, we remain focused on executing our long-term strategy. In Argentina, our key market, we are navigating a difficult environment with weak macro conditions and heightened volatility surrounding the presidential election, adding another layer of uncertainty to the second-half of the year. Despite these challenges, we have been operating in Argentina for over 20 years, many of which were under uncertain scenarios. We also have a resilient business model with nearly 80% of revenues generated in US dollars and the solid balance sheet that provides additional flexibility.

Looking towards the future, we are moving ahead with our investment program in Argentina as we modernize and expand capacity to meet overall growing demand and offer a convenient travel experience. In Brazil, weak economic growth, together with the cessation of operations of Avianca Brasil, continue to weigh on traffic trends and results. We also expect Avianca's former capacity at Brasilia Airport to be gradually restored by the three other carriers with domestic operations at this airport, starting by year-end. In Italy, while we continue to monitor the evolution of Alitalia and the development of Brexit, we are expecting a good summer travel season.

In sum, while we continue to face several headwinds in Argentina and Brazil in the near-term, our solid balance sheet provides flexibility and support for our strategy of advancing on investment projects that will better position the Company for growth, as volatility in Argentina recedes and the macro environment improves.

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. If you would like to ask a question, please press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. We ask that you limit yourself to one question and one follow-up. You may re-queue for additional questions. At this time we will pause momentarily to assemble the roster.

And our first question today comes from Ian Zaffino with Oppenheimer. Please go ahead.

Mark Zhang

Hi, good morning, guys. This is Mark on for Ian. Thanks for taking our questions. So just to start off first question, in regards to the AA2000, is there any updates on discussion with the government in regards to potential extension, just given what has been going on down there in terms of the shift and government election coming up? And any insights on timing will be much appreciated as well. Thank you.

Martín Eurnekian

Thank you, Mark, for your question. As you can imagine, the situation in Argentina is a little confusing right now, because we have a virtual winner of the primary elections, and we're waiting for October to have a real result on the elections. So my best guess would be that the government will be ready to start discussions with us once we know who it is after the elections.

Mark Zhang

Okay, great. Thank you. And then just another quick one in regards to your balance sheet. Are you guys looking to potentially look at new M&A or new concessions, just given where your balance sheet strength is? And if so, are there any that up and coming or you guys are interested in? Thank you.

Martín Eurnekian

Thank you for the question. As we always say, we are always—our business development team is always looking for opportunities that can bring an upside to Corporación América Airports and its shareholders. We are looking at the opportunities that have arisen recently in the regions that we operate. But so far, there are no formal processes in which we are involved.

Mark Zhang

Okay, great. Thank you guys very much.

Operator

And once again, if you'd like to ask a question, please press star then one. And our next question comes from Stephen Trent with Citi. Please go ahead.

Stephen Trent

Good morning, gentlemen, and then thank you, gentlemen, and Gimena, and thank you for taking my questions. I was curious in regards to a follow-up from the gentleman from Oppenheimer. Aside from the potential extension of AA2000, can you give any more granularity with respect to how that asset's IRR is running versus the guaranteed IRR, and whether that gives you leverage to have some conversations?

Martín Eurnekian

Thank you for your questions, Stephen. As we always say, we believe that the mixture of required investment for future growth in the next years of the concession and the way the concession has performed so far opens an opportunity for us to discuss the extension clause in our concession contract. Nevertheless, to comment on that, we would really need to understand the regulator's point of view once they review the economic equation of the concession.

Once that happens, we can have a clear view and also have a position on whether-- if we agree with it or not. So in that sense, we hope that we will soon get news from the regulator. And as soon as that happens, we can have a clear view on that. Although, within the company, there is a belief that we are lower than the target, but we still have to discuss this with the regulator in terms of the numbers they create.

Stephen Trent

Okay, Martín, that's very helpful. And just two quick follow-ups. Just to be clear, I mean, that guaranteed IRR was something that was granted by a former Kirchner administration, if that's correct.

Martín Eurnekian

The current form of the contract was signed in 2007 during the first government of Nestor Kirchner, that's correct.

Stephen Trent

Yes, great. Great. Thank you. And just one last question from me, and apologies if I missed it, as I had some trouble dialing in. I wasn't sure if there's an update on El Palomar Airport and how that process is progressing.

Martín Eurnekian

So we have two airlines operating at El Palomar, two low-cost airlines, Flybondi and JetSmart from Chile that's also started operations in Argentina. The airport is performing really well. It ranks in the top airports in Argentina by traffic right now. We have there a recent ruling--- We have started international flights from the airport as well. We recently had a ruling from a judge, cutting flights during nighttime from 11 P.M. to 6 A.M., but aside from that, that is being contested by the authorities, the airport is running really well.

Stephen Trent

Okay. I appreciate it. Let me leave it there. Thanks, Martín.

Martín Eurnekian

Thank you.

Operator

And our next question comes from Bruno Amorim with Goldman Sachs. Please go ahead.

Bruno Amorim

Hi, good morning. So my question relates to capex, which has increased in the second quarter, just wanted to confirm if all these capex can be considered as part of the additional \$1 billion that has to be included in the contract, or is part of this capex you have made in Argentina in the second quarter. Is this related to the original agreement you had with the regulator?

And also in that regard as well, to what point do you intend to keep doing the capex prior to discussing with the regulator the offset for this additional capex on top of what was initially expected? So do you intend to continue doing the capex at the same pace going forward, or can we see a deceleration until you have a final agreement on either concession extension or other way for the company to be compensated for those additional investments? Thank you.

Martín Eurnekian

Thank you for your question, Bruno. Towards the end of last year, we reached the capex amount that was foreseen in the original contract. So what we have done since then has been in excess or beyond that. We are definitely going to finish all the different works that we started. And going forward, we most probably will sit down and discuss with the government the continuity of the capex program and how that translates into the probable extension. Although, I wouldn't say a definitive answer, because we would make decisions as we go in terms of the dialogue that we will have with whomever is in the government during the next year.

Bruno Amorim

Thank you.

Martín Eurnekian

If I can make an addition to your question, all the capex we are doing is approved by the regulator, and hence, it's put in the regulatory accounting of our concession contract and the IRR.

Bruno Amorim

Understood. Thank you.

Operator

Again, if you have a question, please press star then one. And our next question comes from Juan Gotsis with TPCG. Please go ahead.

Juan

Hi, good morning. I was wondering, given that you are going to finish this investment in Argentina, how much capex is left to finish the projects that are ongoing?

And also, following what you said about the Italy Airport, the Italy expansion in Pisa, how much do you plan to invest there? And also in Brazil, I don't know if you're still planning to do the expansions there. Thank you.

Martín Eurnekian

Thank you for your question. During the second half of this year, we expect to invest around \$150 million in Argentina. The work in Italy has not started. We have some budgets, but we will probably come into that when we start the works and we assign the works through a public tender process there and that can freeze the right amounts of the works we're contracting.

And, you had a question on Brazil regarding capex?

Juan

Yes, exactly. I believe before in other calls, you mentioned you were planning to do a commercial expansion there. I don't know if there's been any development regarding that, or is there some other type of expansions in Brazil.

Martín Eurnekian

The only expansion we foresee in Brazil—go ahead, Jorge.

Jorge Arruda

Okay. Hi, thanks for your question. This is Jorge Arruda, I'm Head of M&A and Corporate Finance and also Head of Brazil. So I'll take this question regarding Brazil.

Regarding your specific question about the commercial area, this would be a third-party funding. We would lease the area to a third-party that would do the capex. And regarding that, we have redesigned the projects to further adapt with the reality of the airport and the region and the trends of the market and are discussing with investors that will, as I said, put the money. So this is progressing nicely, but again there's no capex from our side.

From our side, as was mentioned during the conference call, we began construction of what we call pickup plaza to concentrate all the car pickups from Uber and other car-hailing companies, some of the car rental companies and creating a new gravity center. It's not the huge capex; it's about \$ 2 million to \$3 million.

We have a plan to expand international area. As Martín has said, Gol has just put the fourth international flight and Latam announced officially, in fact, the day before yesterday, three new international flights out of Brasilia: Lima, Santiago and Asuncion. So we will very closely watch how these flights perform. The initial task looks good, that's the feedback we have from the airlines. We are also in discussions with some other airlines to introduce new flights.

So if we indeed see that this is a trend that is there to stay, we will more seriously consider expanding the international terminal. It's again not a huge capex, we're talking about \$10 million to \$12 million maximum, which can be executed in 12 months.

Juan

Okay. Okay, perfect. That's very clear. Thank you.

Operator

And, again, if you would like to ask a question, please press star then one. And this will conclude our question-and-answer session. I'd like to turn the conference back over to Martín Eurnekian for any closing remarks.

CONCLUSION

Martín Eurnekian

Thank you very much. Thank you very much 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 on the next quarter. In the meantime, the team remains available to answer any questions that you may have. Thank you very much, and enjoy the rest of your day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time and have a wonderful day.