Corporación América Airports S.A.

First Quarter 2019 Earnings

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CORPORATE PARTICIPANTS

Martin Eurnekian - *Chief Executive Officer*

Raul Francos - *Chief Financial Officer*

Jorge Arruda - *Finance and M&A Manager*

Gimena Albanesi - *Head of Investor Relations*

PRESENTATION

Operator
Good day, and welcome to the Corporación América Airports First 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. There will be an opportunity for you to ask questions at the end of today's presentation. And as a reminder, today's conference is being recorded. At this time, I would like to turn the conference over to Gimena Albanesi, 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 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 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' first 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 with slide number three. We are navigating a challenging macro environment, particularly in Argentina, our largest market, and to a lesser extent, in Brazil. In Argentina, we saw travel dynamics impacted by the sharp currency depreciation, which resulted in a negative mix-shift towards domestic traffic, lower commercial demand, and the impact of the FX translation on local currency revenues. Brazil, Italy, and Uruguay were also impacted by currency depreciation.

In this context, we were still able to report an increase in passenger traffic, up 4 percent year-on-year as we continued to add new routes and airlines with over 20 million passengers traveling across our airports. Total domestic passengers increased 9 percent, while international and transit passengers declined low single digits year-on-year. Excluding inflation accounting and two one-time items that Raúl will discuss shortly, comparable Adjusted EBITDA declined 8 percent year-on-year with the margin Ex-IFRIC flat at 39 percent despite the difficult backdrop. Better margins this quarter in Argentina and Italy offset weaker performance in other markets. With the aim of further strengthening the company's position to capture future growth and add to the passenger travel experience, we invested $64 million this quarter. Spending was mainly focused on enhancing our airport infrastructure in Argentina.

Importantly, last month, we received the approval from the Italian Ministry of Transportation for the master development plan through 2029 for the expansion of Florence Airport. With this step finalized, we are on track to commence work in the fourth quarter of 2019.

Finally, keeping with our goal of extending the life of our concessions, in April, we extended the concession agreement of the Punta del Este Airport in Uruguay for a 14-year period through 2033.

Turning to slide four. Traffic growth of 4 percent for the quarter was mainly driven by a pick up in Argentina and softer growth in Brazil and Armenia, which more than offset declines observed in Peru and Uruguay. Traffic was negatively impacted by difficult macro conditions and sharp FX volatility, as already mentioned. We also faced tougher comps this quarter as first quarter 2018 benefited from Easter holidays, which this year took place in April.

Passenger traffic in Argentina was up close to 7 percent year-on-year compared with 4 percent in the previous quarter. This slight pickup came along with continued mix shift from international to more affordable domestic travel. In Brazil, passenger traffic continued to decelerate and was flat year-on-year, impacted by a reduction in less profitable routes by a Latin American international airline and capacity adjustments at a Brazilian carrier, which partially offset the benefit from new routes and frequencies.

Total traffic in Italy decelerated to nearly 2 percent year-on-year, from 5 percent in the fourth quarter impacted by flight cancellations at Florence Airport due to bad weather conditions, partially offset by new routes and airlines. In Uruguay, traffic declined 6 percent year-on-year, affected by softer travel demand from Argentina and cancellation of a route to Colombia and the impact of currency depreciation on local demand.

Traffic was also weak in Peru, declining almost 6 percent as a result of the suspension of operations of a low cost airline last year. Finally, traffic in Armenia was up 10 percent year-on-year, supported by new frequencies to destinations in Russia introduced last year, while Ecuador continued to post a strong performance with traffic up over 7 percent supported by new international routes and frequencies.

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

Raul Francos
Thank you, Martin. Good day, everyone. As Gimena noted at the beginning of our 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 five, total revenue growth reflected tough comparisons against last year. The first quarter of 2018 included the one-time recognition of the CPI inflationary effect on airport fees in Italy for an amount of 4.9 million, which was recorded in other revenues.

On a comparable basis, excluding this one-time item and also construction revenues, total revenue fell 8 percent year-on-year.

Aeronautical revenue declined 6 percent, mainly reflecting the mix shift from international to domestic traffic in Argentina and the FX translation impact on domestic revenues from the strong currency depreciation. In Italy and Brazil, despite traffic growth, aeronautical revenue declined, impacted by currency depreciation of both the Brazilian real and the euro against the US dollar. Ecuador posted another quarter of revenue growth, and in Uruguay, the introduction of the new security tariff more than offset the decline in traffic.

Commercial revenue declined close to 14 percent year-on-year, mainly affected by lower demand in Argentina and the FX translation impact in Argentina and Brazil. In local currency, commercial revenues in Brazil increased 14 percent, mainly due to higher VIP lounge and advertising revenues. In Italy, fueled by the expansion of a car rental area and remodeling of some commercial areas at our airports, coupled with traffic growth, commercial revenue increased over 3 percent despite the depreciation of the euro. Armenia continued to post positive result on the back of higher fuel demand and prices.

Moving to our cost structure on slide six. The decline in revenues in our largest market, coupled with tough top line comps in Italy, resulted in lower cost dilution this quarter. However, given that most of our costs are denominated in local currency, the FX depreciation in key markets helped mitigate this impact. As a result, cost of services Ex-IFRIC12 declined almost 7 percent year-on-year mainly due to lower maintenance costs in Argentina, which benefited from currency depreciation as well as lower concession fees and labor costs in our main markets. SG&A fell almost 11 percent year-on-year, mainly driven by lower sales taxes and labor costs in Argentina. This was partially offset by higher bad debt charges in Brazil related to a Brazilian carrier, and in Argentina arising from commercial tenants. Also, SG&A in the first quarter of 2018 included a one-time charge of almost 1 million in IPO expenses.

Now, please turn to profitability on slide seven. Adjusted EBITDA Ex-IFRIC declined nearly 11 percent to 122 million in the quarter. Excluding both, the nearly 1 million one-time IPO expense and 5 million non-recurring revenue recognition in first quarter 2018, comparable EBITDA was 8 percent lower year-on-year, while the margin remained flat at 39 percent. Solid margin improvement in Argentina and Italy this quarter was more than offset by the weaker performance in Brazil, Uruguay, and Ecuador.

As you can see on slide eight, our healthy balance sheet provides us with financial flexibility to move ahead on our strategic initiatives. Net debt at the close of the quarter was relatively flat sequentially at 882 million with net debt to last 12 months adjusted EBITDA relatively flat year-on-year at two times. We also keep a sound debt profile with around 12 percent of our debt maturing within the year and 58 percent of our debt denominated in US dollar, 26 percent in real, and 15 percent in euros.

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

Martín Eurnekian
Thank you, Raul. Starting with Argentina on slide nine, revenues Ex-IFRIC were down 14 percent year-on-year, impacted by the difficult macro environment, which had the following effects on our top line performance. First, we continued to experience a mix-shift from international to more affordable domestic travel. International traffic was down 6 percent, while

domestic travel was up 16 percent year-on-year, supported by the addition of new routes and frequencies by low cost carriers. Second, commercial revenues, mainly duty-free, also declined following the lower international traffic trend. And third, revenues were also negatively impacted by the decline in cargo volume with higher export activity and a sharp reduction in higher margin imports. Finally, domestic travel and local currency commercial revenues were also impacted by the FX translation effect from the 98 percent quarterly average year-on-year peso depreciation.

In this context, adjusted segment EBITDA declined 10 percent. By contrast, Ex-IFRIC12 margin expanded nearly 200 basis points year-on-year to 48 percent. While this is an improvement from the margin contraction experienced in the fourth quarter, note that we anticipate lower cost dilution as the year progresses, as cost inflation catches up with currency depreciation.

Making headway in our investment program, capital expenditures were 59 million in Argentina this quarter. Investments were mainly centered in the construction of the new departures terminal building and multilevel parking at Ezeiza Airport, which is on track to begin operations in the third quarter of this year. Funds were also allocated to the expansion of Aeroparque Airport and new terminal buildings at regional airports including Comodoro Rivadavia, Iguazu, and Jujuy.

Now, moving to Italy on slide 10. As I mentioned earlier, we saw a year-on-year slowdown in traffic, reflecting several cancellations at Florence Airport due to bad weather conditions. We expect these operational restrictions will be mitigated once the construction of the new runway is completed. Note, however, that international traffic was up 3 percent, more than offsetting the 2 percent decline in domestic travel. Higher international traffic supported the good performance observed in retail, duty-free, and car rental areas inaugurated in 2018 at Florence Airport. New, larger and more profitable duty-free stores opened at Pisa Airport last February also contributed to solid commercial revenue growth. This was partially offset by the 8 percent quarterly average year-on-year euro depreciation.

Excluding the one-time revenue recognition in the first quarter of 2018 that Raul explained earlier, total comparable revenues Ex-IFRIC12 were flat year-on-year, impacted by the euro depreciation. Our Italian operations delivered solid underlying profitability, supported by higher cost dilution with comparable adjusted EBITDA up 25 percent year-on-year, and the margin Ex-IFRIC12 expanding close to 130 basis points to slightly over 6 percent from 5 percent in the year ago quarter.

We invested 3 million in Italy this quarter, mainly on the master development plan at Florence Airport. With the recent approval of this plan, we are now ready to start the expansion of this airport in the fourth quarter of this year. We are also moving along with our plans to expand the terminal building at Pisa Airport, aiming to accommodate anticipated passenger growth and expect work to commence on the fourth quarter this year.

Now, please turn to slide 11 for discussion about Brazil. Traffic continued to decelerate in Brazil, ending the quarter flat year-on-year at 5 million passengers. Growth from the addition of new domestic and international routes was offset by a reduction in less profitable routes at a leading Latin American airline and capacity adjustments at a Brazilian airline. Local currency revenues increased almost 8 percent year-on-year. Commercial revenues were up in the mid-teens, reflecting our new commercial agreements and higher cargo volume while aeronautical revenues grew in the low single digits. This good local currency performance, however, was offset by the 16 percent FX depreciation of the Brazilian real in the period translating into a decline of 7 percent in ‘as reported’ revenues.

In terms of profitability, while cost of services declined reflecting lower concession fees, as Raul just discussed, adjusted EBITDA was impacted by weaker revenues and a 1.3 million bad debt charge related to a Brazilian carrier. This resulted in a 28 percent year-on-year decline in adjusted segment EBITDA to 3 million and the margin contraction of close to 290 basis points to 10 percent in the quarter. We believe in the long-term potential of the country and specifically our two airports. Having said that, in the near-term, our Brazilian operation is impacted by a challenging macro environment, including FX volatility and recent reductions in GDP growth expectations. In addition, we will also have to weather the annual payment of the concession fee. On the positive side, the Brasilia Airport, our main airport in Brazil, is one of the largest hubs in the country and the third busiest airport in Brazil.

Now, please turn to slide 12 to review our Uruguayan operations. Impacted by weak travel demand from Argentina and the cancellation of some routes, passenger traffic in Uruguay declined 6.2 percent year-on-year. Despite this, revenues were flat year-over-year. Higher aeronautical revenues, driven by a new security fee, offset the decrease in traffic and commercial revenues. Specifically, softer demand from Argentine passengers resulted in a decline in duty-free and car rental revenues, which together with the 9 percent currency depreciation, contributed to lower commercial revenues. Adjusted EBITDA in turn was nearly 3 percent lower to 19 million, with margin Ex-IFRIC12 contracting 63 basis points to 55 percent in the quarter.

Now, please turn to slide 13. Looking ahead as the year progresses, our business is expected to track generally in line with overall macro trends. Argentina, our key market, is facing a more difficult macro environment with GDP growth expectations for the year recently lowered. This, together with the added volatility from this being a presidential election year, suggests a more subdued economic recovery towards year-end, weighing on passenger traffic trends and revenue growth. Domestic travel is anticipated to continue improving throughout the year, driven by higher competition among airlines and growth in low cost carriers. At the same time, inbound international traffic is expected to gradually increase as traveling to Argentina becomes more affordable given the weak peso, but not fully offsetting the decline in outbound traffic by locals. In sum, we expect to see a single digit increase in total passenger traffic growth in Argentina for the year.

In Brazil, capacity adjustments taking place at a couple of carriers together with the recent reductions in GDP growth for the year are anticipated to weigh on overall traffic trends and results. At the same time, traffic in Uruguay should dovetail the economic performance in Argentina; while in Italy, we continue to monitor developments at a national carrier.

In conclusion, while in the near-term we face several headwinds across key markets, we maintain a solid balance sheet that supports our strategy of advancing on key capital investment projects that better position us for long-term growth. An important component of this is our focus on enhancing the passenger travel experience across our portfolio of airports. You heard us discuss earlier in the call that we are improving airport infrastructure, specifically in Argentina and Italy, with programs already underway. We have been navigating through a volatile period, but believe we are well-positioned to resume growth as the macro environment improves.

This is the end of our prepared remarks. We are now ready to take questions. Operator, please open the line for questions.

QUESTION AND ANSWER

Operator
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. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. And at this time, we'll pause momentarily to assemble the roster.

And our first question today comes from Steven Trent with Citi. Please go ahead.

Steven Trent
Good morning, guys, and thanks for taking my questions. I just have two quick ones at this point. You mentioned the Brasilia asset, the 28 percent year-on-year dollar decline in EBITDA. I imagine that some of that is coming from currency movements. Could you give us any color how much of that decline was driven by the bad debt charges?

Gimena Albanesi
Hi, Steve. Thank you for the question. So, the bad debt in this quarter was around $1.3 million. Remember that the FX had a movement, so we are using an average of 3.8 in the quarter roughly. That was the charge that we had this quarter specifically.

Steven Trent
Great. Thanks, Gimena. And is there any potential recourse in terms of you guys eventually collecting that money?

Gimena Albanesi
Well, we have to see how this situation with this carrier moves forward. There is a chance that we're able to collect, but so far and according to accounting rules, we have to record this bad debt. And let me remind you, last quarter we also recorded a bad debt for the same situation.

Steven Trent
Okay, very helpful. And just one last quick question. When I think about AA2000 implied return versus the guaranteed return, it seems that in terms of potential levers to get you guys to the returns, you could, A, increase tariffs; B, reduce Capex; or C, extend AA2000. Is it fair to say that the third option would be the path of least resistance from a political perspective and considering the strong domestic traffic growth?

Martín Eurnekian
Thank you for question, Trent. As an easy reply, I would say yes, definitely yes. The extension would be the easiest one politically, but we still have to monitor the development of our cash flows and the concession throughout the remainder period of the life of it, to be able to have a clear idea on where we're going, but the answer is yes.

Steven Trent
Okay. Appreciate that, Martin. I'll leave it there. Thanks very much.

Operator
Once again, if you'd like to ask a question, please press star, then one. And once again, that is star, then one to ask a question. 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
I'd like to thank 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 the next quarter. In the meantime, the team remains available to answer any questions that you may have. Thank you very much.

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