

Corporacion America Airports

Q4 2019 Earnings and COVID-19 Update Call

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CORPORATE PARTICIPANTS

Gimena Albanesi – *Investor Relations Manager*

Martin Eurnekian – *Chief Executive Officer*

Jorge Arruda – *Head of Finance and M&A*

PRESENTATION

Operator

Good morning and welcome to the Corporacion America Airports Fourth Quarter 2019 Earnings and Covid-19 Update Call. A slide presentation accompanies today's webcast and is available in the Investor Section of Corporacion America 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. As a reminder, this call is being recorded. And 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. Also with us today, are Raul Francos, our Chief Financial Officer and Jorge Arruda, Head of Finance and M&A. 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 statement 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 for a better understanding of the underlying performance, in our presentation today we will be discussing results, excluding hyperinflation accounting in Argentina, which became effective in 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, Martin Eurnekian.

Martin Eurnekian

Thank you, Gimena. Hello, everyone, and welcome to today's call.

We are holding our year-end call during an unprecedented health crisis that has rapidly expanded worldwide and that has disrupted the global economy, and in particular, the aviation industry resulting in drastic reductions in passenger traffic.

There is significant worldwide uncertainty in terms of the duration and magnitude of the COVID-19 outbreak, as well as the impact it will generate on the overall macro environment and on the consumer confidence.

On today's call I will discuss briefly our key operating and financial highlights for the fourth quarter and fiscal year 2019, and then move on to discuss the impact of the pandemic on our operations during the first quarter of this year. I will then address the initiatives we are implementing across the company to protect employees and passengers. Importantly, I will also discuss the measures we are implementing to mitigate the impact of this crisis on our business and to strengthen liquidity.

Starting with a quick recap of 2019 results, a total of 84 million passengers travelled across our 52 airports last year, resulting in a 3% increase in total traffic for the year and nearly 2% in the

quarter. The coronavirus outbreak comes at a time when adverse macro conditions in Argentina were already dampening travel demand and FX depreciation impacted performance in Brazil.

This resulted in revenue declines of 6% ex-IFRIC12 for the fourth quarter and nearly 7% for the full year.

Despite the impact in our topline, we delivered comparable adjusted EBITDA margin expansion of over 220 basis points in the quarter

We ended the year with a comparable adjusted EBITDA of nearly 450 million dollars and an ex-IFRIC 12 margin of 37%. Note that comparable adjusted EBITDA in 2019 excludes a 43 million dollar non-cash impairment loss in Brazil, a bad debt charge of 23 million dollars in Argentina as well as certain one-time items in 2018 totaling 1 million dollars.

We continued to make significant capital investments during the year totaling slightly over 380 million dollars as we moved ahead with works at Ezeiza and Aeroparque Airports and infrastructure upgrades across several other airports in Argentina, as well as in Ecuador and in Armenia.

More detail in terms of our 2019 results can be found in our earnings report and the exhibits of this presentation.

As you can see on slide 4, we have a track record of consistently driving both passenger traffic and cargo growth across different economic cycles. Over the last month shutdown measures across all of our countries of operations are taking a heavy toll on the travel industry and our business. We began to see the impact of Covid-19 on traffic flow late February in Italy and around the second week of March at our LatAm airports. Preliminary traffic for the first quarter of 2020 was down nearly 17% year-on-year.

As you can see on the next slide, governments across our countries of operations established a series of travel bans and restrictions beginning in March to reduce the spread of the virus. A detailed list of these restrictions is included in the slide. Operations are also being impacted by the introduction of flight restrictions in many other countries worldwide.

On the chart on the left side of this slide we have included the trend in weekly passenger traffic in March. Preliminary figures show that traffic was down by approximately 12% year-on-year in the first week, declined further to around 18% in the second week, deteriorating to a drop of nearly 60% in the third week and over 90% in the fourth week of March. For the whole month of March, preliminary traffic is estimated to have declined approximately 45% year-on-year. Note that while we usually do not disclose preliminary weekly figures, we are providing them on this call to share with you how the COVID-19 pandemic has impacted our business. Preliminary figures may be subject to adjustments.

Please turn to slide 6. We reacted rapidly in the face of this disruption and formed a crisis committee composed of myself and the operating CEOs of each of our subsidiaries. We have developed a four-pronged strategy focusing on our employees and passengers, cost controls and cash preservation measures, near-term negotiations with regulatory bodies and government support, as well as renegotiation of the economic re-equilibrium of our concessions.

Starting with our first set of initiatives, the well-being of our employees and passengers is of utmost importance to us, and we have taken specific measures to protect them. This includes

enhancing safety and hygiene protocols across our operations. We have established remote working through the use of technology. Only essential staff is working on premises. For these employees we provided health gear and established additional sanitizing policies. Other initiatives include promoting staff communications around prevention, personal care and family care.

Turning to slide 7, with the main objective of ensuring the sustainability of our business in this trying environment, we are implementing a number of cost control and cash preservation measures across our airport network:

- First, we are making significant reductions in personnel expenses including salary reductions, suspension of salary increases and freezing new hiring, as well as mandatory use of pending vacations or advancing vacations to employees when possible. Given the unprecedented circumstances that we are facing, we made the difficult decision to place operating employees on furlough in certain geographies. In Italy and Uruguay, our employees under furlough are receiving government unemployment subsidies.
- Second, we are lowering our maintenance expenses while maintaining the quality and safety standards, required to support the minimum level of operations in all our concessions.

As a result of these combined measures, we expect our total cash operating costs and expenses – excluding concession fees – to decrease by approximately 43% during the months that we operate under this crisis scenario. This target reduction is based on current Company estimates for the second quarter of 2020 compared to the second quarter of 2019 figures.

Let me also remind you that, except for our concessions in Brazil, all our operations are under a variable concession fee regime. In Brazil, fees are largely subject to a fixed annual payment, and I will discuss shortly our initiatives on this front.

In addition to this, and to further protect our liquidity, we are aggressively managing our working capital, by negotiating with our suppliers the extension of payment terms while we are also reducing drastically our capex program. I will go into further detail shortly.

Turning to slide 8, in light of this unprecedented crisis, we have started discussions with regulatory agencies to renegotiate concession fee payments aligning to the current environment. We are already making important strides in Brazil, where we have recently obtained the regulatory approval to defer until December the variable and fixed annual concession fee payments originally due May and July, respectively. Negotiations with regulators have also began in Argentina, Italy and Uruguay.

On another front, we are requesting deferral of tax payments. We obtained the deferral of PIS/COFINS taxes in Brazil and are requesting exceptions and/or deferral of certain taxes in Argentina and Italy as well.

In Argentina, we are pursuing the collection of approximately 40 million dollars of certain past due receivables from a national airline and a 15 million dollar recovery of VAT Credits in connection with capex. In Italy, we are in discussions with the government to obtain a grant for an amount of approximately 20 million euros for our Florence and Pisa airports.

We will update on the outcome of these initiatives once talks have progressed further.

Please turn to slide 9. Another important area we are working on is the review of the re-equilibrium of the concession agreements across our airport network. As a reminder, we have different types of concession agreements. Some of our concession contracts have guaranteed returns, which comprise our operations in Argentina, Italy and Armenia, which accounted for approximately 74% of total revenues ex-IFRIC 12 in 2019. Argentina and Armenia operate under single-till schemes, where a certain return shall be achieved over the life of the concession. Our two airports in Italy operate under a dual-till model which provides a guaranteed return in connection with its aeronautical activities.

Other concession contracts do not provide for a guaranteed return, however, some of these have force majeure re-equilibrium clauses. This includes our operations in Brazil and Ecuador. In Brazil, we have initiated conversations to begin the process of requesting economic re-equilibrium for the Brasilia and Natal airport concessions, while in Ecuador we have recently filed a request to begin an economic re-equilibrium process of the Guayaquil airport concession. In these two countries, the amounts and mechanisms for compensation will be negotiated with authorities and may include a reduction in the concession fee amount and/or mandatory capex, increasing tariffs, extending the tenor of the concession or a combination thereof

We are in the initial stages of this process, which requires going through administrative and regulatory channels. We will be providing updates over time as they become available.

Moving on to our balance sheet and liquidity on slide 10. We ended 2019, with 196 million dollars in cash and equivalents and a Net Debt to EBITDA ratio of 2.7 times. We also had approximately 66 million dollars in Treasury bills and time deposits, not included in Cash and equivalents. Of our total debt at year-end 2019, 247 million dollars in principal and interest payments were due this year. Of this, we already paid down around 39 million dollars by the end of March.

In the current environment, cash preservation is a critical focus to us. To that end, over the past weeks, we have been thoughtfully and quickly implementing a comprehensive plan on several fronts:

- Starting in April, we cancelled all non-mandatory capital investments and deferred non-priority projects. Note that approximately 69 million dollars were already invested in the first quarter of the year including expansion works along with most of the minimum maintenance capex planned for the year.
- Second, and as I just mentioned, we have implemented a set of cost control measures to reduce our operating expenses and we are negotiating with our suppliers extending payment terms to limit additional cash outflows.
- Third, we have suspended dividends to third parties in our concessions in Italy and Ecuador for an approximate amount of 17 million dollars. CAAP currently does not pay corporate dividends and we do not have in place a share repurchase program either.
- Fourth, in connection with our indebtedness, we have obtained a 6-month deferral of principal and interest payments until October of all our debt in Brazil, that was originally due until September. Moreover, we obtained additional funding in the first quarter for an amount of 40 million dollars and we continue to work closely with the financial community particularly in our main markets, to preserve the Company's liquidity and financial flexibility in this challenging environment.

We can't predict the severity and the length of this pandemic, so we're working hard to be prepared for any and all scenarios

Now, to wrap up turn to Slide 11. While we have enjoyed a solid track record of passenger and traffic growth across our diverse network of airports over the last five years, the events of the last few months are unprecedented and have severely impacted every corner of the global market, and, in particular, travel related businesses.

Path to recovery still remains uncertain and is dependent on a number of factors including the duration of the pandemic, government assistance and the resilience of the global economies. We have been working on all fronts to reinforce our business through a series of operating and financial measures as well as entering into key negotiations with governments related to our concession fees to align them with the current environment.

We have built a strong network of international and domestic airports, and have made significant investments over the past years to further modernize our infrastructure. That will play an important role in reigniting economic growth once the current travel restrictions start being lifted. In the interim, we are focused on the health and security of our employees and passengers while working to ensure the sustainability of our Company.

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

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your telephone keypad. If you are using a speakerphone, we ask you to please pick up your handset before pressing the keys. We do ask you limit yourself total two questions a time and you may reenter the queue to have more. At this time, we will pause momentarily to assemble our roster.

And today's first question comes from Stephen Trent with Citi. Please go ahead.

Stephen Trent

Hello Martin and hello everybody and thanks very much for the color and for taking my question. My first question pertains to AA2000. And I know in the current environment, it's very hard to ascertain where we land, but with respect to AA2000 and your conversations with the government, any view with respect to the probability that we could see that asset's concession extended, considering that you're owed on that guaranteed return and the government's national airline apparently also owes you money?

Martin Eurnekian

Hello Stephen, thank you for your question. This is Martin here. I would say yes to your question. Of course, again, the world and Argentina, in particular, and I think all countries in all sectors are experiencing something so new and so different and it's such an emergency that I think all outcomes are possible. We are having productive conversation, I think, with all of the governments where we operate and I think we will see the developments move in the next few months as we see and start getting an idea of where the travel restrictions are going and how long will this pandemic last, and aside from that, what attitude will governments have regarding this.

We are also working with all the most important agencies in the world to try to understand how

and when will the recovery start and what measures should we start thinking of to be able to reignite traffic as fast as possible. But as far as our conversations with the government in Argentina and probably governments elsewhere where we operate, I think given the size and magnitude of this crisis and the fact that there are no precedents and no one really has a recipe on how to deal with this, I think we will have to all keep an open mind to work and create solutions for our industry and our airports.

Stephen Trent

I appreciate that, Martin, and if I may just follow up with one very quick question. I know in the case of Italy, that market seemed to be one of the first places in the EU that got hit very hard and maybe at least lately also showing some signs that the situation has peaked. Are you seeing anything at this very early stage with respect to anything you can see in the booking curve that would suggest that there's light at the end of the tunnel kind of medium term, or it's still way too early to say?

Martin Eurnekian

I think although it's very early to say, the conversations I have with our staff in Italy started very grim and we can now see that the mood--the moods have changed. They went from all the containment measures and conversations with the governments and regulators regarding the crisis to starting to switch, I would say this last week, to conversations with different organizations or airlines, directly with airlines and regulators on starting to think what the next day would look like. And that has changed the mood for staff and people. Airlines are already talking about when are they going to restart, and airports are preparing for that. So, I hope that's not a false hope, but that's the mood we are receiving from Italy. And that's hopeful for us because they were hit first. They started the quarantine first, and hopefully, they'll be one of the first to come out.

But I think it's still too early to say how will this restart. If it will be first with domestic traffic and slowly international traffic, if new protocols are going to be implemented for travelers, for international travelers to be able to move freely in different ways and how the pandemic will look like in the rest of the world. I think all of those things will have to do on how fast and how will the restart of the business look like.

Stephen Trent

Okay, I will leave it there. Very helpful and thanks Martin.

Martin Eurnekian

Thank you, Trent.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star (*), then one (1) at this time.

Today's next question 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 question. So, I guess I just want to follow up on your concession rebidding process in Natal. Do you guys--I guess like when do you guys expect a response from the regulators? And then as a follow-up question, are there any other concessions in the portfolio that you guys are also assessing? Thank you.

Jorge Arruda

Hi. Thanks for your question. This is Jorge. I'm Head of Corporate Finance and also Head of Brazil for the group here. We filed the so-called friendly rebidding process approximately a month ago. We expect that this year, we will be able to make progress at the 3 levels of the government, which are the regulator, ANAC; then the Ministry of Infrastructure, more precisely SAC; and then the PPI, which is the body government in charge of the tender process, the licitation process.

Once we go through those 3 body governments, we should be ready to sign an amendment to the concession agreement and have a date for the new bidding. Obviously, this whole situation that we are in brings some uncertainty over the timeline, but we expect that the new bidding will take place sometime next year. We are hopeful that by midyear, it will take place, but let's see. We are working very closely and--with the government and keep you posted.

Mark Zhang

Great, thank you very much.

Operator

Ladies and gentlemen, as a final reminder, if you'd like to ask a question, please press star (*), then one (1) at this time. Once again, we will pause momentarily while we assemble our roster. Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Martin Eurnekian for any final remarks.

CONCLUSION**Martin Eurnekian**

I'd like to take the opportunity to thank you very much for joining us today. We really appreciate your interest in our company. We look forward to providing updates on our business and initiatives as they become available. In the meantime, the team remains available to answer any questions that you may have. Thank you again.

Operator

Thank you. This concludes today's conference call. We thank you all for your participation. You may now disconnect your lines and have a wonderful day.