



**Grupo Aeroportuario del Sureste
1Q20 Earnings Call Script**

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's First Quarter 2020 Results Conference Call. My name is Cathy and I'll be your operator. At this time, all participants are in listen-only mode. We will conduct a question and answer session towards the end of today's conference. Instructions will be provided at that time. As a reminder today's call is being recorded.

Now, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead.

Adolfo Castro, ASUR Chief Executive Officer:

Thank you, Cathy, and good morning, everyone. Thank you for joining our conference call to discuss ASUR's First Quarter 2020 financial and operating results. Before starting the call, I would like to express my hope that you and your families are all healthy and safe in these uncertain times.

As a reminder, please note that certain statements made during the course of our discussion today may constitute forward-looking statements, which, are based on current management expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially, including factors that may be beyond our Company's control, including the impact from COVID-19. For an explanation of these risks, please refer to our filings with the US Securities and Exchange Commission and the Mexican Stock Exchange.

Overall, our first quarter results were good. The year began on solid footing before we started to see the impact of the Covid-19 pandemic in the second half of March, which resulted in the disruption of the global travel industry. Importantly, we ended the first quarter with a healthy balance sheet, which I will come back and discuss in more detail later in my presentation.

I am going to start today's presentation with some **comments regarding COVID-19** and the impacts on the industry, on our business and the steps we have taken to mitigate this disruption- to the best we can in this rapidly changing environment.

From an industry perspective, since mid-March, many governments have issued flight restrictions in an effort to mitigate the spread of the COVID-19 virus. In turn, capacity has been severely reduced and very few people are booking flights as most are in some form of lockdown around the world and not traveling.

With respect to our airports, the situation varies by country and could be subject to change depending upon how fast or slow, the pandemic is brought under control. Colombia has been

the most active and has suspended operations at all six of our airports since the third week of March with domestic flights suspended until April 27 in accordance with the published decree, and most recently extended up to May 11. International travel has been suspended through May 13. By contrast, our airports in Puerto Rico and Mexico remain open, although there is significantly reduced flights and passenger traffic.

As a result, total passenger traffic declined sharply in the second half of March - down nearly 69% year over year between March 16 and 31. By country, we saw the largest decline in Colombia, down 77%, followed by Puerto Rico down 73%, and Mexico with a 63% decrease during this two-week period.

Additionally, starting in mid-March, some of the airlines as well as some tenants that operate in our airports began asking us for assistance, either through discounts on payments owed to ASUR or by an extension of the payment terms. This resulted in higher accounts receivables in March in Mexico and Colombia, up 54% and 78% year over year. We are having ongoing commercial discussions with these companies with respect to their contracts.

Moving next to actions that we have taken.

Starting with **health and safety**; following the guidelines of the relevant health agencies, we have implemented health and safety protocols for both our airport employees and passengers travelling through our airports. For example, protective gear, such as wearing masks, is required for airport staff. We have also stepped up disinfecting and sanitization practices, once again in accordance with the guidelines of local health authorities. Lastly, where possible, we have also implemented a remote working policy.

Moving next to ensuring **continuity of our business**. We have introduced cost reduction initiatives across our airports. The impact of these initiatives, however, is not expected to be significant vis a vis the potential decline in passenger traffic as the majority of our cost structure is fixed, except for all concession fees and the technical assistance fee in Mexico, which are variable costs. We are prepared to take additional steps as needed to respond to the evolving business environment.

Now, let me talk about our financial situation.

We entered this crisis in a position of strength with **strong liquidity and very low principal payments required through year end**. Additionally, we believe the Company has sufficient liquidity to meet its obligations and continue operating in the normal course of business.

- Our cash position at quarter end was 7.8 billion pesos which was up from 6.2 billion pesos at year-end 2019. And, subsequent to the quarter end, we further strengthened our financial position as our subsidiary in Puerto Rico drew down an additional US\$10 million of its committed line of credit. The line of credit serves as support for the capex projects we have under construction at LMM airport in Puerto Rico.
- We closed the quarter with total Debt of 15.3 billion pesos. Although 11% higher than the year-end 2019, this was due to the conversion effect from the depreciation of the peso against the US dollar. As a reminder, the majority of our debt - 54% - is denominated in US dollars which is at the Aerostar subsidiary in Puerto Rico; 26% of total debt was denominated in Mexican pesos, and 20% in Colombian pesos.

- We have principle payments of only 432 million pesos coming due over the next three quarters. This represents less than 3% of ASUR's Total Debt.
- With respect to debt ratios, Net Debt-to-Last Twelve Months EBITDA stood at 0.7x at the close of 1Q20. You can see the Interest Coverage ratios by country in the table we have included in the earnings release this quarter.

Now, stepping back for a moment. Since we began operations over 20 years ago, we have successfully navigated through many very significant challenges from the 9/11 event in 2001, 2 major hurricanes in 2005, the 2008 Financial Crisis, to the H1N1 flu and the bankruptcy of 50% of the airline system in Mexico which cut plane capacity in Mexico by more than half. Following each of these events, passenger traffic recovered, although recovery time varied from 13 months to 26 months, and then continued to grow. Between 2000 through 2019, annual passenger traffic increased at a CAGR of 6% up from slightly over 10 million to a historical high of over 34 million last January.

We believe the COVID-19 pandemic is unique in the sense it is global event with an abrupt disruption in travel and economies worldwide and it could change the way of traveling in the future while a vaccine or a cure is found.

Summing up this section, we have a strong balance sheet. We have generated years of consistent profitability, and we exercise prudent expense management. In this sense we believe that we cannot be better prepared for an event of this magnitude, but of course there is great uncertainty of the final effects in the worldwide economics and travel behavior in the aftermath.

Now turning to our first quarter results. More details can be found in the press release issued last evening.

As I mentioned at the start of my presentation, notwithstanding the impacts to the business in late March, we delivered solid results in first quarter of 2020.

- Total **passenger traffic** was down in all three airports which led to a total passenger decrease of slightly over 6% year over year. This was primarily due to the fallout from COVID-19 and the impact on the global travel industry beginning in the second half of March. Our airports in all three countries experienced total passenger declines from a low of nearly 3% in Colombia to a high of 8% in Mexico. Puerto Rico passenger traffic was down 4%. All three countries reported declines in both domestic and international passengers.

Moving next to some P&L highlights:

- **Revenues** ex-construction were relatively unchanged, as a 4% increase in revenues from non-aeronautical services was offset by a 3% decline in aeronautical revenues.
- **Consolidated commercial revenues per passenger** increased 11% YoY reaching Ps.116.2. This was driven by a solid performance across the region:
 - Mexico, posted a good performance with an increase of 11% on a per passenger basis benefiting from the currency peso depreciation on Duty Free revenues.
 - Next, Puerto Rico posted a 7% increase per passenger benefiting from the peso depreciation; and

- Finally, Colombia saw a 33% increase on a per passenger basis reflecting the 43 new stores opened over the last year and currency depreciation. The main drivers were ground transportation and car rentals.
- **Moving on to profitability, reported consolidated EBITDA** increased 3% from the same period of the prior year. Both periods benefitted from insurance recoveries related to Hurricane Maria. In 1Q20 this amounted to nearly 124 million pesos, while last year the amount was slightly over 41 million pesos. Excluding these recoveries - consolidated EBITDA was essentially flat year-over-year at 2.7 billion pesos.
- Ex-IFRIC12 and without taking into account the insurance recoveries in both quarters, **Adjusted EBITDA margin** increased 20 bps to 66.7% this quarter.

Next, a few comments about Capital Allocation.

Capital Expenditures were 353 million pesos in the quarter.

Of this, nearly 68% was allocated in **Mexico** to the terminal expansion at Merida Airport. For the full year, and as we have discussed before, our Master Development Plan in Mexico calls for investments of approximately 5.3 billion pesos for the full year. At the current time, there are no changes to the planned continuation of the parallel taxiway to the second runway at Cancún airport and the beginning of the first expansion of Terminal 4. Our plans call for the conclusion of phase 1 of the Merida Terminal expansion and to begin the second phase this year. Nevertheless, due to the Covid-19 health crisis, we may see some disruption on the construction process attributable to the “stay at home” recommendation and we have informed the Government about this situation.

In **Puerto Rico**, we made capital investments of 114 million this quarter mainly in connection with some major maintenance repairs in taxiways.

Finally, capex in **Colombia** amounted to 1 million pesos related to maintenance, as last year we concluded our committed capex for that country. And going forward we only expect to incur in mayor maintenance capex in Colombia.

Next, at our Annual General Meeting held yesterday, shareholders approved an ordinary net cash dividend of 8.1 pesos per share, to be paid subject to the Board approval on or after May 11th, 2021 in a single installment.

In conclusion, we are proactively responding to the developing situation. No one can control the virus or even the economic fallout, but we can control how we react to the crisis. I am optimistic about our prospects for the future, both navigating through the current crisis and in the long-term recovery. And I believe we are well-positioned with a healthy balance sheet. We had a solid first quarter reaffirming the strategies that we are executing.

That ends my prepared remarks. Cathy, please open the lines for questions.

Operator:

Thank you. Again, to the audience, it is star, then one for questions. Again, please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits. To allow everyone the opportunity to ask questions today, we ask that you please limit yourself to two questions and then re-enter the queue.

We'll go first to Alejandro Zamacona of Credit Suisse.

Alejandro Zamacona

Thank you, Adolfo. Thanks for the call. Two questions on our side. The first one is on the aeronautical maximum tariff. Considering that the airlines have been negotiating with most of the airports and in some cases, some fees have not been charged, what could we expect for maximum tariffs in the short term, meaning the second quarter, and in the near term, meaning year-end 2020? Could we still expect tariffs to be close to maximum levels?

Adolfo Castro Rivas

Alejandro, hi, good morning. Basically, what we are seeing today is a very reduced demand, so we believe that there is no effect if we try to reduce our fees for the month of April or the month of May, so we have maintained our tariffs and we believe that we can comply with maximum tariff compliance the next year.

Alejandro Zamacona

Okay, thank you. My second question is on the non-aeronautical business. Same thing, in the same context, what could we expect in the short term and medium term for commercial revenues per passenger? Have you granted any rent payment, facility payments or any deferrals? Thank you.

Adolfo Castro Rivas

For most of our contracts, as you may know, they have to pay the higher of a minimum guarantee payment per passenger or a percentage on sales, so if we do not have passengers, they do not have to pay rent, so the adjustment is made automatically, so in that sense we have and we are not reducing or adjusting the contracts.

Alejandro Zamacona

Okay, thank you Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

We will now take a question from Fernando Sanchez of Bradesco BBI.

Fernando Sanchez

Hi, good morning, and thanks for taking my question. My question is in light of the GDP contraction beyond 5%, I just wanted to ask if you have had the opportunity to discuss with the authorities the possibility of delaying the 2021 GDP mandatory capex.

Adolfo Castro Rivas

Hi, good morning. Well, as you are aware, the contracts have closed. That said, the maximum tariff can be reduced in the case of Mexico in an x and y way when the Mexican GDP drops by more than 5% in a year, and that has an impact on traffic. Of course, with the current circumstance and the current expectations from analysts, it is possible that the Mexican GDP will drop by more than 5% this year, so in that sense, we will be in the possibility of review our maximum tariff in an maximize way for next year, but not this year.

Fernando Sanchez

Okay, thank you very much.

Adolfo Castro Rivas

You're welcome.

Operator

Now we'll take a question from Carlos Peyrelongue of Bank of America.

Carlos Peyrelongue

Thank you, good morning Adolfo. Thank you for the call. On the dividend, you mentioned that something—I couldn't hear well because of the connection, but can you comment as to whether the dividend will be kept or there is the possibility of cutting the dividend until you have more certainty about passenger traffic? That would be the first question.

The second would be related to cash burn. Could you give us an idea of what your cash burn is on quarterly basis, just to get a sense of—you know, compare that really to your strong cash position? Thank you.

Adolfo Castro Rivas

Yes, of course. In the case of the dividends, yesterday we held the annual Shareholders meeting where assembly approved the dividend that it was proposed, the 8.1 pesos per share, but it was—this was subject to the approval from the Board to the moment of the payment as from May 11, 2021. The Board will have to approve when this dividend will be paid.

In the case of the cash burn, what I said to you during the initial remarks is that our cost structure is basically fixed. The only variable pieces are the technical fees and the concession fees we pay to the governments we are working in. Just a reminder, in the case of Mexico it's 5%, the same as in Puerto Rico, and in the case of Colombia it's 19% - one-nine. These of course will be reduced as our passenger traffic is reduced and our income is reduced.

The remaining basically of course we are taking measures to track and reduce as much as we can all the expenses in the Company, but as I said, at the end in the overall picture, the cost reduction will not be significant in comparison with the reduction in the revenues of the Company.

Operator

We'll move on to our next question, and that will come from Andressa Varotto of UBS.

Andressa Varotto

Hi, thank you very much for taking my question. My question is, do you have plans to negotiate with the government a postponement of mandatory capex, if it is possible? Thank you.

Adolfo Castro Rivas

Could you repeat the question? I couldn't hear you.

Andressa Varotto

Yes, so my question is if you plan to negotiate with government the postponement of mandatory capex.

Adolfo Castro Rivas

As I said before, in accordance with the contract, we do not have that possibility this year, but of course (inaudible) and as I stated in my initial remarks, there is a special situation, and that special situation is that some companies have reduced or stopped operations like in the case of cement that it was reactivated later on, but there was a decree from the Mexican government that all cement, steel and glass that is produced in the country will be used for their projects, so in that sense, at the moment it's almost impossible for us to expand our terminal buildings without these materials, so we have informed this situation to the government, so for the moment what would be exactly the disruption in our construction process for some months and then we will have to talk about this with the government. That's what I can share with you for the moment on this respect.

Andressa Varotto

Great, thank you very much.

Adolfo Castro Rivas

You're welcome.

Operator

Our next question will come from Stephen Trent of Citi.

Stephen Trent

Good morning Adolfo, and thanks very much for taking my question. I hope that you and your family are well.

Just one quick one for me. I know that it seems that Mexico's government apparently has not been that active in offering assistance to the corporate sector. What are you hearing from

Colombia? Any indications from them with respect to whether the aviation industry gets some sort of relief?

Adolfo Castro Rivas

Steve, thank you for your question, and we are all healthy.

In the case of Colombia in comparison with Mexico, they have been more active in the measures that they have been taking. As I said during the report, they were very strict basically frozen or shutting down everything as from March 23, and that can be seen in terms of results in the cases they—in the active cases they have in comparison with the active cases we have in Mexico. So, their curve is decreasing or at least flattening while the Mexican curve is still increasing.

In terms of what they have said for our industry, we have been closed since March 23 and they have issued decrees in that respect. Lately this week, there was a new announcement from the president extending the process of shutting down everything. As I said in my remarks for the case of domestic aviation, that will be closed up to May 11, and in the case of international up to May 13. It is important to remember that in the case of Colombia, 85% of aviation of domestic and 15% is international. That's what we know as of today.

Of course, all of this may change depending on how flat or how slow they can control the virus in the country.

Stephen Trent

Thank you very much, Adolfo, and I apologize - I couldn't hear all of your remarks so well, but no indication at this point, for example, that Colombia is planning any kind of tax relief for aviation or something along those lines, offering financial support?

Adolfo Castro Rivas

Well, we have not heard anything about that yet.

Stephen Trent

Okay, appreciate that. I'll let someone ask a question. Thanks Adolfo and be safe.

Adolfo Castro Rivas

You're welcome.

Operator

Next, we will go to Gabriel Himelfarb of Deutsche Bank.

Gabriel Himelfarb

Hi, good morning. Thanks for the call. I have two questions. The first one is concerning about account receivables. Can you give us a number of an approximate number about what's the total receivables coming from airlines, and in specific from Interjet and American Airlines? My second question is do you think you could obtain some waivers in opex or capex from your current MDP in Mexico, and could you be able to extend the life of the concession in Colombia?

Adolfo Castro Rivas

Hi, good morning. In terms of accounts receivables, you can see those in our report. Those have increased in the case of Mexico and Colombia. Most of the increase is coming from the airline industry. I do not have the details of American Airlines and Interjet you are requesting.

In terms of the capex, as I said before, we have informed the government about the current situation. We really don't know if they are going to relax in that respect, but of course it's going to be almost impossible for us to construct or expand our buildings without the materials, so that's all of what I can say to you.

Gabriel Himelfarb

Okay, thank you.

Adolfo Castro Rivas

You're welcome.

Operator

Now we will go to Ruben Lopez of Santander.

Ruben Lopez

Hi Adolfo, thanks for the call. My question is on commercial revenues. I'm sorry if you commented on this, but I understand in Cancun, you're operating in just one terminal, so wanted to confirm how are your operations there in Cancun and what are the implications on commercial operations? Are there any penalties with the tenants? What are negotiations here? That's the first one.

The second one is related on the same topic. When we see commercial revenues and we try to compare current levels versus what would be the fixed amount or the fixed part of the minimum payment, can you give us any sense of the gap here? Thank you.

Adolfo Castro Rivas

Okay, as you have said, yes, in the case of Cancun, we have closed two terminals and we are just operating today in Terminal 4, so all the operations are being concentrated there, this in order to reduce on one side the expenses, and of course on the other side to be well prepared in the case of this reduced demand. All of those are working in the case of Terminal 4, so Terminal 4 is operating as it was before the event.

As I said before, most of the contracts, the management contracts we have with the tenants are related to a minimum guaranteed payment per passenger, so once again, they do not have—let's talk about one of the business that is closed, so if they do not have passenger traffic in Terminal 2, they do not have to pay rent. Of course, when they operate in Terminal 4, their operations will be in accordance with the amount of passengers we have in that facility, so I would say Terminal 4 is operating normally.

Ruben Lopez

Thank you, and when you compare to the current level of commercial revenues versus what would be the minimum payment from the contract, can you give us any idea on that?

Adolfo Castro Rivas

It all depends. The minimum payment under the contract is on a per-passenger basis.

Ruben Lopez

Okay, perfect. Thank you.

Operator

Again, as a reminder, that is star, one if you'd like to ask a question. We'll pause again for just a moment to allow everyone the opportunity.

We will now go to Jorge Lourenção of Morgan Stanley.

Jorge

Hi Adolfo, good morning. Thank you for the questions. A quick question, actually a pretty general question. Was just wondering if you could provide more color on what are the main initiatives regarding your cost reduction efforts? How are those working down to payment reductions and paid leave of absence, maintenance costs, utility costs, etc., and how are those playing out so far? Thank you very much.

Adolfo Castro Rivas

The main initiatives of course are related to, in the case of Cancun, in terms of amounts, so having these two terminals closed, we are not bearing the same amount of energy as if they were open. Also, in the case of Cancun, we are in the process to shut down one of the runways because today, in accordance with the volume thereit's not needed, so that runway will be turned off in terms of lights at night, also it is in the amount of energy we will have to pay.

In terms of some other measures we are taking, it's adjusting some of the contracts cost nature or maintenance in the case of the buildings that are closed, and to try as much as possible to reduce the operating cost and expenses. But once again, at the end most of our cost is fixed, so if we look at the cost structure of the Company, the most important lines are personnel and utility costs, as you have said, so in the case of personnel, we are maintaining the personnel for the event or the crisis, and in the case of utilities we are trying as much as we can to try to reduce that burn.

Jorge

Thank you so much, Adolfo, and stay safe, and have a good day.

Adolfo Castro Rivas

Thank you.

Operator

With that, that does conclude the question-and-answer portion of today's conference call. I would like to turn the call back over to Mr. Castro for closing remarks.

Adolfo Castro Rivas

Thank you, Cathy, and thank you again for participating in our first quarter results conference call. On behalf of ASUR, we wish you a good day and please stay safe. Goodbye.

Operator

Ladies and gentlemen, that concludes ASUR's first quarter 2020 results conference call. We'd like to thank you again for your participation. You may now disconnect.