



**Grupo Aeroportuario del Sureste
2Q20 Earnings Call Script**

C O R P O R A T E P A R T I C I P A N T S

Adolfo Castro, *Chief Executive Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Alejandro Zamacona, *Credit Suisse*

Mauricio Martínez, *Grupo Bursátil Mexicano*

Rodolfo Ramos, *Bradesco BBI*

Roberto Versiani, *Citi*

Alan Macias, *Bank of America*

Pablo Monsiváis, *Barclays*

P R E S E N T A T I O N

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Second Quarter 2020 Results Conference Call. My name is Hanna 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, Hanna and good morning, everyone. Thank you for joining our conference call to discuss ASUR's Second Quarter 2020 financial and operating results. I hope each of you and your families have managed to stay healthy and safe since our previous earnings call.

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.

As anticipated, results this quarter were significantly impacted by the Covid-19 pandemic, which disrupted global travel trends starting mid-March. However, we closed the quarter with a strong balance sheet, which I will discuss this in more detail shortly.

Starting with related traffic conditions worldwide, since mid-March, various government mandated flight restrictions have been in place to help prevent the spread of the Covid-19 virus. Consequently, airlines across the world continue to operate with severely limited capacity and few people are booking flights, either due to government restrictions or out of concern for their and their families' health.

At ASUR's airports Mexico and Puerto Rico have remained open to-date, although operating with significantly fewer flights and much lower passenger traffic. At the same time, due to governmental restrictions, only essential commercial spaces in Puerto Rico are open to the public, affecting our non-aeronautical revenue in this market.

Restrictions have been higher in Colombia, where the government suspended domestic and international commercial air travel since the third week of March, with international flights expected to resume on September 1. In terms of domestic traffic, on July 1, Colombia's government launched a pilot program for flights between cities with low levels of contagion. Under this program, each local municipality has the authority to restart domestic-bound flights as long as their counterpart in the other municipality is also in agreement to resume these flights. Given the complexity of this process, our six airports in Colombia have not restarted operations.

All of these factors resulted in a 94% decline in passenger traffic during the second quarter, with decreases of nearly 100% in Colombia, 94% in Mexico and 86% in Puerto Rico. All three countries reported declines in both domestic and international passengers. On an accumulated basis, passenger traffic was down almost 51% year-on-year during the first six-months of this year.

In addition, starting mid-March, certain airlines, as well as some commercial 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. Beginning in June, we initiated some initiatives to support the recovery process. As a reminder, most of the commercial agreements with our tenants include a minimum guaranteed payment per passenger. So, in those cases, if no passengers our tenants do not have to pay rent.

In addition, while three of ASUR's main airline customers - Aeromexico, Avianca Holdings and LATAM Airlines Group - recently filed for Chapter 11 bankruptcy protection in the United States, these companies have continued to make regular payments, as allowed by the relevant courts. As such, we believe ASUR has sufficient liquidity to meet its obligations and continue to operating normally.

Let me now quickly go over the steps we have been taking so far to help mitigate the various risks related to Covid-19:

Starting with health and safety - in accordance with the guidelines of the relevant health authorities, health and safety protocols remain effective for both employees and passengers

at our airports. In addition to preventative measures such as wearing face masks, enhanced sanitizing practices continue.

On the expense front, while our cost structure is largely fixed, we rapidly implemented cost reduction measures across ASUR's operations to reduce cash burn where possible. With personnel and utilities representing the highest share of expenses, we mainly focused on lowering maintenance and energy costs. For example, in Mexico, we temporarily closed Terminals 2 and 3 at Cancun Airport in mid-April. In July, we reopened Terminal 2 and are now operating with Terminals 4 and 2 to ensure social distancing in support of the current passenger levels. We also shut down one of the airport's two runways. We will take similar steps across our operations, as necessary.

Now, moving on to ASUR's financial position.

Although ASUR's performance continues to be impacted by very weak travel demand, we are still operating from a position of financial strength, with ample liquidity and very low principal payments to be paid in the near term. In other words, we continue to meet all financial obligations and will be able to effectively ramp up our operations whenever travel demand picks up. I would like to note that even though the second quarter was ASUR's worst quarter ever, we saw a slight improvement in traffic performance in May in comparison with April and June in comparison with May.

- We closed the quarter with cash and cash equivalents of 7.1 billion pesos, up 15% from 6.2 billion pesos at year-end. Mexico contributed slightly over 650 million pesos to the increase in our cash position, while Puerto Rico and Colombia contributed nearly 330 million pesos and 49 million pesos, respectively.
- Total debt at quarter-end was 15.5 billion pesos, up 13% from year-end 2019. This was mainly due to the depreciation of the peso against the US dollar and a drawdown of 10 million dollars from a committed line of credit to support capex projects under construction at LMM airport in Puerto Rico.
- We have a healthy debt maturity profile, with principal payments of only 388 million pesos, or 2.5% of ASUR's total debt, maturing in the second half of the year. Also, note that only 813 million pesos in principal payments, or slightly over 5% of total debt, matures in 2021.
- The majority of our debt – 54% - is denominated in US dollars, which is at the Aerostar subsidiary in Puerto Rico; while nearly 26% of the remaining debt is denominated in Mexican pesos and 20% in Colombian pesos.
- In summary, ASUR maintains a solid balance sheet, with Net Debt-to-Last Twelve Months EBITDA at 1.1 times at the close of 2Q20, compared with the 0.7 times reported at the close of the first quarter, mainly reflecting weaker EBITDA as a result of the impact of Covid-19.

I would like to emphasize once again, that the current crisis affecting ASUR's performance is not the first. We have succeeded in navigating and overcoming others over the past two decades, from the impact of 9/11; to the 2008 Financial Crisis and the H1N1 flu. In all cases, passenger traffic eventually recovered. In fact, between 2000 through 2019, Mexico's annual traffic increased at a CAGR of 6% to a historical high of over 34 million passengers in January of this year. And, following each crisis, we quickly resumed delivering consistent profits for our shareholders, of course the situation we are passing through is the worst ever.

While travel demand is expected to remain depressed for the foreseeable future, ASUR maintains a strong balance sheet and we continue to manage cash and expenses prudently.

Now let me touch upon the other key highlights of our second quarter results. More details can be found in the press release issued yesterday evening.

Revenues, ex-construction, were down 77% year-on-year, driven by similar declines in aeronautical and non-aeronautical revenues. Puerto Rico was the main contributor to revenues, accounting for nearly 61% of revenue this quarter, followed by Mexico with a share of almost 34%, and lastly Colombia representing just 5% of the total, reflecting strict travel bans in that country.

Consolidated commercial revenues per passenger were slightly over 350 pesos, compared to nearly 100 pesos per passenger in the same period last year. However, the increase mainly reflects the sharp contraction in our passenger traffic supported basically by few commercial spaces with fixed rents per square meter.

On the expense front, operating costs and expenses - excluding construction costs - were down 24% year-on-year, as we scaled back airport operations and maintenance, and as energy consumption decreased, mostly in Mexico and Colombia.

- Mexico posted a 34% decline in costs, reflecting lower maintenance and energy expenses, along with lower cost of sales related to directly operated convenience stores. Technical and concession fees, both variable costs, also declined during the period. The lower costs were partially offset by higher provisions for doubtful collection accounts that we booked given the impact that low demand levels are having on our commercial clients.
- Costs in Colombia were down 41%, mostly the result of savings in maintenance, energy and security expenses, as well as lower professional fees.
- By contrast, costs in Puerto Rico were up nearly 6% year-on-year, mainly resulting from the FX conversion impact, which more than offset declines in cost of services and concession fees. In dollar terms, total costs in Puerto Rico were down 17% year-on-year.

Moving on to profitability, reported consolidated EBITDA was down 98% year-on-year to 51 million pesos, impacted by the Covid-19 pandemic. Both periods benefitted from insurance recoveries related to Hurricane Maria. In 2Q20, this amounted to 35 million pesos while last year the amount was nearly 163 million pesos. Excluding these recoveries - consolidated EBITDA would have declined 99% year-over-year to 16 billion pesos. EBITDA of 203 million pesos in Puerto Rico, was offset by EBITDA losses of 140 million pesos in Mexico and 47 million in Colombia.

Ex-IFRIC12 and excluding the insurance recoveries in both quarters, Adjusted EBITDA margin declined to 1.8% this quarter, from 65.4% in the same quarter last year.

In terms of Capital Allocation, we made capital expenditures of 616 million pesos in the second quarter.

- Of this amount, 77% was invested in Mexico to continue executing phase 1 expansion of the Merida Airport Terminal. Remember that for the full year our Master Development Plan in Mexico calls for investments of approximately 5.3 billion pesos. During the first half of the year, we invested a total of 714 million pesos in this country, and we remain on

schedule with building the parallel taxiway to the second runway at Cancún airport and with beginning the first expansion phase of Terminal 4. We also expect to conclude phase 1 of the Merida Terminal expansion and to start the second phase this year. That said, there were disruptions at each of these development projects, due to the Stay-at-Home orders in Mexico, and we have kept the Government apprised of the related delays.

- Capex in Puerto Rico totaled 138 million pesos this quarter, mainly reflecting some major maintenance repairs to taxiways.
- Finally, we invested slightly over one million pesos related to major maintenance in Colombia, as our capex commitment for that operation was concluded last year. Looking ahead, we only expect to invest in major maintenance in Colombia.

I would like to conclude by reiterating that ASUR continues to operate from a position of financial strength and that we are carefully managing cash while calibrating variable costs to align them as best we can with the current demand conditions, in order to successfully navigate the current crisis. We remain confident that we can.

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

Operator

Thank you. Again, for 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. Once again, that is star, one to ask a question.

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

Alejandro Zamacona

Thank you. Hello, Adolfo. Thank you for the call. Our first question is on the renegotiation of the MDP process. On that context, how many times are you expecting for this renegotiation and what would be the expected cap ex for this renegotiation or the expected outcome for this renegotiation?

Adolfo Castro

Alejandro, hi, good morning. Well, as you may know, the only way to revise our maximum tariffs in an extraordinary way on the current conditions is once the Mexican GDP drops by more than 5% during the last 12 months. I estimate that that will occur during this year and once the final number is published by the official authorities, we will be able to file our request to the authorities. Having said that, what I expect is that we will be able to file that on the first quarter next year. How much time it will take? I really don't know. There is no timeline for that, but I would expect at least three months. During the second quarter of next year we will be able to know more or less what was the outcome of the negotiation process.

In terms of the numbers, of course, today we cannot give you a precise or an accurate number of how much the cap ex will be reduced because the cap ex is not reduced because we want. It's basically reduced as a result of the low demand. Once we know the outcome of the low demand for the year, we will be able to make the necessary calculations to see which projects are no longer needed because of this low demand and those are going to be the ones that will have to be postponed. It's not canceled, it's postponed or deferred until the demand is there again.

One year from now we will be able more or less to tell you the outcome of that process.

Alejandro Zamacona

Okay. I guess it's just that delay on cap ex rather than a reduction on the total amount you are willing to negotiate, right?

Adolfo Castro

Okay, let me explain again. Let's talk about the expansion today of Terminal 4, okay? That expansion is needed or was needed because the demand was growing. There are certain standards that we have to comply in accordance with our concession package. A certain amount of square meters of terminal every peak hour passenger traffic. So, if passenger traffic demand decreases, that work is not necessary, or for the moment it's not necessary and we will have to find the point in the future where these will have to be made. But that is the origin of this process to review what is needed and what is not in accordance with the demand we have. Once we know what was the effect on the demand because of the situation, we will be able to calculate these numbers again and to say if this is going to be deferred one year, two years or three years.

Alejandro Zamacona

Okay, thank you. My second question, if I may, it's on the aeronautical business for Puerto Rico. Is there any possibility for airlines to renegotiate the fixed payment contract?

Adolfo Castro

Well, the contract has been written and the contract can be renegotiated of course in accordance with the contract. But I do not see any chance for now to see that renegotiation process.

Alejandro Zamacona

Okay. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

We'll go next to Mauricio Martínez with GBM.

Mauricio Martínez

Hi. Good morning, Adolfo, and thank you for taking my question. My question is a follow up of the past one, on cap ex. Do you expect to—well, knowing that you already have some delays in cap ex deployment probably for this year, what is the amount that you expect to deploy for that MXN 5 billion that you committed in the current master development plan? If you expect any deferral pushing it forward for the next year?

Adolfo Castro

Mauricio. Hi, good morning. I do not have yet a final figure that I can share with you at the moment. It's clear that there were around three months where there were no construction in the country. There was a decree issued by the government where they said that all cement, steel and glass in the country had to be used in their programs, in their works. Because of that we were not able to continue the process of our expansions. You cannot construct or you cannot expand the building without these elements. We're in that process and I do not have a figure yet.

Mauricio Martínez

But the chance is that maybe it would be lower than those MXN 5 billion.

Adolfo Castro

Well, the chances that these MXN 5.3 billion it's lowered are very high.

Mauricio Martínez

Perfect and maybe ask a second question, if I may. Regarding the accounts receivables, we practically, we didn't see any change, if it's not a reduced—reduction from the previous quarter. Maybe if you can give us more color on that how negotiations especially with the tenants of the airport, how was that negotiation? If you can give us color on the shape of your tenants going forward?

Adolfo Castro

Okay. As I said in the initial remarks, most of the commercial contracts have a clause where they have to pay the higher amount of a minimum currency payment per passenger or a percentage of sales. Because of the low traffic, of course, they were not selling too much, it's clear. But in that case what applies is the minimum payment per passenger. As I said here in the initial remarks if there is no passengers, they do not have to pay rent because sales are zero. The minimum guaranty payment to the passenger is or have to—will have to be multiplied by the amount of passengers. In that sense we have not been renegotiating or negotiating with all the commercial tenants. In most of the cases, the adjustment is automatic.

It is clear that some are suffering a lot and some of them are not paying, but the cases that they are not paying is because they are working in some other airports where they have to pay a fixed rent. Of course, let's say they are using the money from here to put it there.

In some cases, we are renegotiating with some commercial tenants but in some others basically the adjustment is made automatically.

Mauricio Martínez

All right. Very helpful color. Thank you.

Operator

Thank you. We'll go next to Rodolfo Ramos with Bradesco BBI.

Rodolfo Ramos

Thank you and good morning, Adolfo. Thank you for taking my question. My first one is on traffic. I was wondering if you can give us a little bit of color of how are you seeing traffic so far. If you have the number handy up until the 20th of the month, how are you seeing the decline progress? The follow-up on the previous question on Puerto Rico, I mean, a renegotiation of the contract is not on the cards at the moment, but have you seen or do you expect any airlines to stop serving Puerto Rico which would then preclude them from making that payment or how do you see the stability of these revenues going forward? Thank you.

Adolfo Castro

Rodolfo. Hi, good morning. In the case of the traffic, the only thing that I can say to you is that as I said during the remarks, May was better than April, June was better than May and July, I believe, it's going to be better than May. But nevertheless the amount of traffic we're seeing today is extremely low. This situation is not going to recuperate fast. What we have seen in the past going back to 2008 with the financial crisis, plus destroying flu effect, plus the bankruptcy of airlines here in Mexico. It took us 36 months to go back to the previous levels. This could be worse if the vaccine has not been found or a cure is not being found. We have seen recent developments in terms of the vaccine, that's very positive news.

I believe the vaccine is going to be ready by the end of this year. In that sense maybe we can see some recuperation process next year. But of course the final recuperation process is not going to be there until more or less a cure has been found. I don't believe that the world will go back to normal just with vaccine.

In terms of Puerto Rico, this is not the first time. You can go back and see what has happened during the Hurricane Maria in September 2017. There was a sharp decline in passenger traffic and of course you can trace the comparison between aeronautical revenues and these sharp declines. That's what we are experiencing today as well. I don't see any difference from that.

Rodolfo Ramos

Thank you, Adolfo. Just if I may squeeze in a last one. We saw Quintana Roo going back to let's say a maximum red alert in terms of COVID, in Cancun the services sector seems to continue operating as they have been since the middle of June. I was wondering if there's anything to update on that front and whether you're seeing any businesses or sectors in particular follow this federal directive. Thank you.

Adolfo Castro

Well, yes, what is red is the south of the state. It's not the case in Cancun; Cancun, it's still orange. Cancun is still in normal operation. When I'm saying south of the state is basically south Tulum and Chetumal.

Rodolfo Ramos

Okay. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

As a reminder, if you'd like to ask a question, that is star, one at this time.

We'll go next to Roberto Versiani with Citi.

Roberto Versiani

Hello, Adolfo. Thanks for the call. Just a quick question. What are your thoughts on the development of the Mayan train? Just another one, I know, you mentioned this already but could you give me some more color on international traffic since the infection rates are rising in Mexico and if you could push back the timetable on normalization? Thank you.

Adolfo Castro

Hi. Good morning. Well, in the case of the Maya train, what I understand is it's a project that is ongoing. In the case of the Cancun airport where it has been announced last week it's a light train that goes from the city to the airport connecting also with the Maya train. Basically, what I understand is that this project is ongoing.

In terms of the international traffic, today we're just having international traffic to and from the United States and there is some flights, few flights from Canada. In the case of the United States which is the most important for us today, there's a very low factor in that sense. Still we have some flights with a very low factor because of lower demand. That of course will depend of how the situation evolves in the United States. United States, it's a very large country, not—we cannot say the same in terms of what is happening today in New York or in comparison with California. California, today has exceeded the cases in New York. New Jersey is basically controlled. In terms of proportion of the traffic, New York is more important for us than what California is.

In that sense I'm not so afraid of that situation. Of course, we really don't know what can happen there. If there's a another rebound could affect our traffic for the third quarter.

Roberto Versiani

Great. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

Once again, if you'd like to ask a question, that is star, one at this time.

We'll go next to Alan Macias with Bank of America.

Alan Macias

Hi. Good morning, Adolfo. Just one question on traffic in Colombia and what you're seeing there regarding the pandemic. I understand that domestic flights can reinstate. Just can you give us further color? Thank you.

Adolfo Castro

Alan. Hi, good morning. Well, the process as I mentioned during the remarks is now more complicated than what it was in the past because now even though that the federal government has said that the municipalities can approve this, it has been very complicated to find two mayors or the pair of cities of these two mayors to approve this. The most important ones, in the case of Bogota, and the majority of Bogota, is it's very reluctant to open the airport again. In that sense, I don't know what will be the outcome but I still believe that for some time the airports in Colombia will be closed.

Alan Macias

Thank you.

Adolfo Castro

You're welcome.

Operator

We'll go next to Pablo Monsiváis with Barclays.

Pablo Monsiváis

Hi, Adolfo. Good morning. Thanks for taking my question. I have one question. Do you mind sharing your opinion on the status of Mexican Airlines? Because we have Interjet that just received fresh capital from private investors. On the other hand, I know that Aeromexico is going through a restructuring process, so that might likely mean that they will reduce its capacity overall. What are your thoughts in the medium term of the impact of this? Thank you.

Adolfo Castro

Hi. Good morning, Pablo. Well, the most important example is to go back again to these periods of June 2008 up to August 2010. If you see our presentation in Page 17, you can find the history of these. More than 50% of the aircrafts were lost during this period. Around eight or nine airlines in Mexico went bankrupt. Of course, there was an impact on our passenger

traffic. There was an impact, an important impact I would say three months, four months from August to December 2010 when the large one which was Mexicana the largest one went bankrupt. The situation today is different in terms of the offer because what is low is the demand. There is no demand. Even though that we can say that in the case we lose some of these airlines because of the situation, the problem is not how many planes they will have. The problem is how many people would like to travel and be transported with them.

Today I don't see too much trouble in the reduced capacity. The reduced capacity, it's the result of the low demand. What is important to recover is the demand.

Pablo Monsiváis

Okay. Perfect. Thank you very much.

Adolfo Castro

You're welcome.

Operator

Once again, if you'd like to ask a question, that is star, one. That concludes the question-and-answer portion of today's conference call. I would like to turn it back over to Mr. Castro for closing remarks.

Adolfo Castro

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

Operator

Ladies and gentlemen, that concludes ASUR's Second Quarter 2020 Results conference call. We would like to thank you again for your participation. You may now disconnect.