

## Q3 2016 Earnings Call

### Company Participants

- Luiz Eduardo Falco Pires Corea, CEO
- Luiz Fernando Fogaca, Administrative VP, CFO & IR Officer
- Unidentified Speaker, Analyst

### Other Participants

- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the CVC's Third Quarter 2016 results conference call. Today we have with us Mr. Luiz Eduardo Falco, Chief Executive Officer. And Luiz Fernando Fogaca, Chief Financial Officer and IRO. Today's live webcast and earnings release may be accessed through the CVC website at [www.cvc.com.br/ir](http://www.cvc.com.br/ir), once again clicking on the Third Quarter 2016. The slides are available for download at our webcast platform. This information has been prepared according to the Brazilian accounting standards based on the guidelines and interpretations of accounting pronouncement teams.

Before proceeding, we would like to mention that forward-looking statements made during the conference call referring to the business outlook and financial outlook represent the assumptions of the CVC management and are based on information currently available to the Company. This information involves risk and uncertainty because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

I would now like to turn the conference over to Mr. Luiz Eduardo Falco from CVC, who will begin the presentation. You may proceed, sir.

#### Luiz Eduardo Falco Pires Corea

Thank you very much and good morning. It is a pleasure to begin another conference call to discuss the results for the Third Quarter 2016. When it comes to our agenda we will

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speaking about the main highlights of the quarter. We will then go on to presenting financial results and finally go on to the question and answer session.

We begin on slide number 4 and refer to the highlights for the quarter regarding bookings. Despite the challenging macroeconomic environment, we are observing a growth of 4.4% in bookings for the Third Quarter 2016. This result was reached in a rather heterogeneous way. In August, which was the month for the Summer Olympics we had a negative growth of 2%. In July and September together we had a positive growth of 8.2%, leading to a final figure of 4.4% for the quarter. We go on to the corporate segment for RexturAdvance, where we see signs of recovery and a growth of 2% in the Third Quarter 2016 vis-a-vis a trough of 7.6% in the Second Quarter of this year. This was the First Quarter in which the Rextur corporate segment presents a recovery, which of course is good news for the market.

When it comes to financial results, the CVC Group had a double-digit growth in adjusted EDITDA and adjusted net result when compared to the same period in 2015. Other very positive points, in October CVC hit an all-time high in bookings of BRL537 million and BRL133 million in the week. Once again, another sign of recovery during the period. In terms of our international bookings, confirmed bookings continue their trend towards recovery, thanks to the appreciation of the Brazilian real, with a growth of 14.6% in the Third Quarter compared to the Second Quarter.

In the Third Quarter we opened up 23 stores, resulting in 110 new stores during the semester, once again in line with our goal of opening 100 stores in 2016. The revenue of added value products grew 12% in the nine months of the year, once again in line with our strategy to focus on new products. For the sixth consecutive year CVC has received the Top of Mind Award from Folha de Sao Paulo that assesses the well-known brands in Sao Paulo. We went from 19% to 21% as an indicator for Top of Mind.

In slide number 5 we're going to speak about the CVC Group. The bookings once again grew, totaling 2,271 for the semester and 6,480 for the nine months of the year, representing a growth of 2.6% in the Third Quarter of 2016 vis-a-vis the same period last year. The CVC Group had a double-digit growth in EBITDA of 10.8% and a net adjusted profit of 11.4% when compared to the same period in 2015 pro forma.

Once again, to refer to our figures, I would like to give the floor to Mr. Fogaca, who will refer to the financial results of the Company.

**Luiz Fernando Fogaca** {BIO 18466257 <GO>}

Good morning, to all of you. I would like to state that we have completed one year of our acquisitions and as of this day we will be reporting consolidated data. Once again the revenues and the bookings will be accounted for separately. Net revenue totaled BRL1.3 billion in the Third Quarter and BRL4 billion up to September, with a growth of 4.4% and 4.2% vis-a-vis the same period in 2015.

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We are on slide number 7. The international bookings maintained their trend towards recovery, thanks to the appreciation of the exchange rate, with a growth of 14.6%. The CVC Group bookings totaled BRL2.2 billion and BRL6.5 billion in the first nine months of the year, with a growth of 2.6% in the Third Quarter of 2016 and a drop of 0.7% compared to the first nine months of 2015. The recovery of sales in the corporate market once again has gone beyond the performance of the CVC Group in the Third Quarter of 2016.

We're going to speak about the performance per sales channel. Recovery of international travel, where the booking is done in advance, off-set the increase in last-minute promotions offered by suppliers in the Third Quarter, maintaining boardings stable year-over-year for the first time in six quarters, something that had not been happening in the first semester. The online traffic in the Third Quarter 2016 slowed considerably because of the crisis, as credit for consumers in stores helped us in the off-line channel.

We go on to page number 11 to speak about EBITDA. The Group's adjusted EBITDA reached BRL142 million end of the Third Quarter and BRL371 million for the nine months, with a growth of 10.8% and 11.4% vis-a-vis the previous year. Non-recurring expenses in the Third Quarter were referring to the remuneration program based on stock options and extraordinary promises and totaled BRL3.8 million. We go on to page number 12 to speak about our earnings growth. The earnings grew 18.7%, reaching BRL56.8 million. Adjusted net income for the Third Quarter as a percentage of net revenue had an increase of 2.7percentage points compared to the same period in 2015.

We now go on to page number 13 to speak about our cash flow. In the Third Quarter and in the accrued period for the nine months of 2016 the operational cash flow was impacted by an increase in net revenue and by the anticipated purchase of international bookings that took place in 2015 thanks to a change in legislation for payments for this type of booking. CVC also received BRL11 million referring to working capital adjustments related to the acquisition of Submarino Viagens from B2W.

We now go on to return on investment and CapEx. The return on invested capital was 13.9% in the last nine months, or 3.6percentage points lower compared to the same period in the September period 2015 due to a higher working capital need compared to the period of September 2015. The CVC Group invested BRL45.7 million in the first nine months, representing 0.5% (sic-see Results presentation "0.7%") of the bookings confirmed during the period.

We go on to page number 15 to speak about our indebtedness. The balance of the debt on September 30, 2016, compared to September 30, 2015, was at BRL483 million, BRL414 million. We take into account advance receivables the net debt was BRL543.5 million. Even with the acquisitions, our debt remains at a very stable level, 1.1 times the EBITDA and 1.0 times during the second semester of the year. Without taking into account the debt referring to acquisitions, financial expenses grew 5.7% compared to the previous quarter, due to higher indebtedness and an increase in interest rates.

We go back to page number 9. We ended up skipping two pages. I would like to speak about the CVC net revenue. The net revenue was at BRL222 million in the Third Quarter,

with a growth of 5% vis-a-vis the same period last year. For net revenue we had BRL771 million, thanks to a more favorable mix of products. The Group's net revenue totaled BRL276 million in the Third Quarter, growing 2.8% vis-a-vis the same period in 2015 pro forma. The net revenue as a percentage of the bookings was 12.2% in the Third Quarter, 10 base points higher than the net revenue margin in the Third Quarter 2015.

We are going to speak about expenses on page 11. The recurring expenses had a reduction of 2.7% in the Third Quarter. And 2.4% in the first nine months of the year, despite the growth of two digits in inflation during the period. This is thanks to a stringent control of expenses and synergy due to the acquisitions. The booking expenses had a drop of 10.9% for the nine months of the year, once again as a result of the optimization of our marketing expenses and a reduction of consumers' default who are now being financed through CVC through a more effective policy. Non-recurring items remain stable, thanks to a very tight control of expenses and once again resulting from synergy due to acquisitions.

We would once again like to thank all of you for participating in our conference call and we will now go on to the question and answer period.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions and answers. (Operator Instructions) Our first question comes from Morgan Stanley from Franco Abelardo.

#### Q - Franco Abelardo {BIO 17416219 <GO>}

Good morning. Congratulations for your results. I have three very quick questions. The first referring to the growth of your channel. In October you announced a record in bookings and I would like to understand how much growth this represents. Is it similar to the growth of 2.2 in September? Or could we think of something greater for the Fourth Quarter? My second question refers to Submarino Viagens. In the revenues and in the net revenue of Submarino Viagens we see 40% drop. We would like to understand what is leading to this drop in revenues and when you expect a recovery.

The third question refers to the drop of 2.7% in recurring expenses. How much of this results from synergy and which are the synergies that we can expect looking forward? Is marketing affecting the results of the online channel? Thank you.

#### A - Unidentified Speaker

Good morning, Franco. When it comes to October we once again had a record in bookings in the Company and, well, in terms of growth rates we can see that it was the best growth rate so far. Besides the record, the growth rate was better than what had been observed in the Second Quarter and July and September. Going forward, once again, we expect to maintain the growth rate we have observed in the last quarter. We

have the good news of the months of September and October that were all-time highs and once again the recovery in the corporate channel is very good news.

When it comes to Submarino we do have some effects of revenue. First of all, we changed the platform twice during the period of one year. Once this was done before the acquisition. We then decided to change the platform at the beginning of the year to have a platform that was more adequate for the operations of the Company. There is a time of stabilization that has been reached in October. This was implemented on July 1. It took four months to become more stable, somewhat beyond what we were expecting.

We have also repositioned some of the Submarino Viagens prices to become more competitive in the market. In other cases we changed from positions that were leading to negative results. Therefore in the Fourth Quarter we're going to begin at a more healthy level with the stabilization of the platform that took place in October. At the end of this year and in the beginning of 2017 we should (inaudible) some growth. When it comes to the expenses, we do have the synergies that can be very helpful, especially in SG&A and selling. Selling has two components that were mentioned, the marketing mix and the reduction of consumer default.

The new marketing is now based on analyzing vehicles with this booking conversion rate and an increase of corporate funds where several states and countries help to sponsor a disposition in the interest of all. We can say that this year we have further enhanced the brand compared to the previous year.

**Q - Franco Abelardo** {BIO 17416219 <GO>}

Thank you very much for your clear answer. Thank you. And, once again, congratulations for your results.

**Operator**

Our next question comes from Mr. Fabio Monteiro from BTG Pactual.

**Q - Fabio Monteiro** {BIO 3711690 <GO>}

Good morning, to all of you. I have two questions, one regarding 2017. If you could speak about your outlook for growth, separating it in leisure and the corporate market. The second question referring to e-commerce. I would like to hear about the competition. Is it somewhat more rational? In terms of break-even, when do you expect to get there and which will be your EBITDA margins in the long run for the internet business?

**A - Unidentified Speaker**

Thank you, Fabio. Good morning. We do not offer guidance on future growth. The macroeconomic scenario has presented a slight recovery. CVC has accrued a growth of 4%. If we look at the Third Quarter and if we break down August that was impacted by the Summer Olympics, we have a growth of almost 9%. Without the negative effect of the Olympics we already could begin analyzing growth for 2017.

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In the corporate part Rextur had a drop in the segment during the first semester, although it gained market share. In October and September we begin to observe growth in the corporate segment, once again thanks to the increase in the average ticket that is being purchased [ph] in the market and that has helped us increase our bookings. For the coming year the corporate market is highly connected to the gross national product. In the last two years we had a minus four and a minus three growth in GDP. A positive GDP in 2017 should lead to a growth of three or four times in the corporate segment and also the average ticket could indicate a growth in 2017.

When it comes to our online bookings, cvc.com evidently is highly profitable. We have hotel packages. Submarino Viagens also offers hotel packages with the new platform and with an access to the packages of CVC and with very interesting marketing activities. All of this should give us a boost and we believe that in 2017 we will obtain positive results. I'm not going to -- we're going to consider growth as a priority without burning cash.

### **Q - Fabio Monteiro {BIO 3711690 <GO>}**

Is the online competition more rational in your opinion?

### **A - Unidentified Speaker**

We have observed several market movements with optimization in advertising expenses, with a reduction in the system to pay in installments of some of our competitors due to the high costs that this represents. Given the crisis in the last 18 months, this exerted a pressure on our results. Theoretically we had some losses and once again this has reduced, the investment has reduced the installments and the period of installments. Thank you very much. Thank you for your question.

### **Operator**

Our next question comes from Marco (inaudible) from Itau BBA.

### **Q - Unidentified Participant**

Good morning, Fogaca and Falco. My first question refers to October. Historically I would like to gain an understanding of what happens in October. We know that in December people tend to travel more and the BRL11 million of EBITDA for B2W for working capital, I would like to better understand what this represents. If you could give us more color regarding cvc.com. In the last semester this seems to have lost a bit of its power and I would like to know what you are doing in-house for this specific channel. Thank you.

### **A - Unidentified Speaker**

Good morning, Marco. Well October is the best month of the year and obviously it is the most important month of the Fourth Quarter, somewhat above November and, because of the vacation, December is the worst month of the quarter. The attainment of these BRL11 million of EBITDA, we had a working capital account that was normal for the business. When we closed the transaction there was a variation regarding the (inaudible) working capital and we, through this payment, have gone back to having a more normal working capital. That is why at the beginning of October we received this amount.

Well cvc.com is a platform that is much more stable. The platform had been launched two years ago. Last year we streamlined this platform further. We also had the Livelio site that has come into the air in June. We have had to make adaptations to the need of our channel and bookings. We also observed a drop in cvc.com compared to CVC off-line. The only factor that prevails in both channels is access to credit. The brand is the same. The product portfolio is the same and the price strategy is exactly similar.

As we have always said, in our brick-and-mortar stores we see that one-third of the bookings are being funded through checks and people can pay for part of this in credit cards, in cash. And they can also work with installments, which offers greater flexibility. This is not possible online. In the last 12 months the online channel has suffered a greater impact and cvc.com once again has a greater impact compared to our brick-and-mortar stores. Thank you very much.

## Operator

(Operator Instructions) Mr. Vinicio Favisa [ph] from Merrill Lynch would like to pose a question.

## Q - Unidentified Participant

Good morning, to all of you. Once again, thank you for taking my question. In this quarter your reserve seems to have had a drop. Perhaps it's the impact of Submarino Viagens. I would like to gain a better understanding of this. Additionally, I would like to know what is happening with the penetration of hotels, especially because of the growth that you have observed in the last quarter. And what is happening at the international level, considering that we seem to have a slight recovery. Thank you.

## A - Unidentified Speaker

Good morning. As you have already mentioned, the worsening of the margins between Rextur and Submarino come mainly from Submarino Viagens. As we remarked at the beginning, the online prices for Submarino were the normal prices of airlines and there was a service fee being charged on that price. The consumers paid for this and in some cases the service fee was higher than that practiced by other companies, which ended up putting us in a position that was not very competitive.

In the second and Third Quarter we repositioned ourselves based on a survey that we carried out and at present Submarino has become quite competitive, especially in the part of tickets: 85% of tickets are sold through Submarino. But once again, this was a positioning for air flights and the same happened with Livelio that began to operate in June, more strongly in July. The rationale was to always offer the best prices to the consumer.

Well RexturAdvance has posed an interesting growth in their sale of hotel bookings. In October we had a record month in hotel bookings and, if we look at the Third Quarter compared to the Second Quarter, the booking of hotels increased 40%, once again backing up our strategy of entering the corporate segment through RexturAdvance. This is very much in accordance to what we have foreseen.

## Q - Unidentified Participant

If you could refer to the international part and what is your administration fee for those?

## A - Unidentified Speaker

Well the international segment has had a slight recovery during the year, during the first, second and Third Quarter with a growth of approximately 15%. In the first month of the Fourth Quarter we have had significant growth in the international sector, once again with the appreciation of the Brazilian real. People are once again going back to purchasing tickets and we have had an acceleration in our bookings and in the Fourth Quarter we should have a robust increase in international bookings. The total sales of Rextur are higher than 5%. But there has been a growth in line with what we had foreseen. Thank you.

## Operator

Mr. (inaudible) from JP Morgan would like to pose a question.

## Q - Unidentified Participant

Good morning. And thank you for taking my question. If you could give us more color in terms of Submarino, what is happening with the EBITDA. We are able to see this in the results. But it seems that Submarino was somewhat contained. So if we could have more information regarding this.

## A - Unidentified Speaker

Well Rextur has posed an EBITDA growth that is very interesting compared to 2015, thanks to some operational enhancements. We have changed all of the financial, administrative. And operating areas. We also have sought to gain greater efficiency. So Rextur has had a nominal drop in its operating expenses which has contributed to a significant growth in EBITDA, even though during the year it has had a drop in bookings.

In Submarino we practically reached a break-even point. We deployed great efforts and expenses in the headcount and the back office parts, reaching a 50% optimization in infrastructure. For the reasons we have already mentioned, we continue to have a drop in Submarino. But it is our understanding that as soon as bookings recover at the end of this year and at the beginning of 2017 we will obtain positive results.

## Q - Unidentified Participant

Another question that refers to your online bookings. The price problems that you have for cvc.com, do they also apply to Submarino Viagens?

## A - Unidentified Speaker

Well basically we're working with the same conditions. But everything is restricted to credit cards. You can split the destination in either 10 installments. But, once again, all of these are purchased through credit cards. Thank you.



## Operator

Our next question comes from Mr. Abelardo from Morgan Stanley.

### Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you for the follow-up. When it comes to your international growth in bookings during the Third Quarter, perhaps the mix will be more negative in terms of boardings in the Fourth Quarter. We may see a lower growth in the margins of CVC at the international level. Or do you think this will not happen? What is it that we can expect therefore?

### A - Unidentified Speaker

Evidently so far we have benefited from the Third Quarter. The international margin in percentage terms is greater than the domestic margin. In the Third Quarter we have already seen a growth in bookings. But the boardings will also take part in the Fourth Quarter. We will have a drop vis-a-vis 2015. But we won't expect to see growth of 40% or 50%. We will have a more stable weight vis-a-vis 2015.

### Q - Franco Abelardo {BIO 17416219 <GO>}

Has there been any impact because of the way you have been operating with franchise stores? What is happening with the franchise fees [ph], if you could refer to this?

### A - Unidentified Speaker

When it comes to franchises, we haven't had an impact, because we now have taken on 22 stores in Rio and this began in October. There will be the possibility of eliminating any impacts because at the outmost [ph] in the First Quarter of 2017, we will pass everything on to the franchisees. So in the Third Quarter there hasn't been an impact and we're studying ways [ph] to ensure that we will not have this type of impact in the Fourth Quarter.

### Q - Franco Abelardo {BIO 17416219 <GO>}

When it comes to the franchisee, have you been able to make a friendly agreement with the franchises in Rio?

### A - Unidentified Speaker

There are two stores and; that we have. But we have observed that it is much better to work with franchise stores. In Rio there are many people interested in this type of store. They're very good. They have a very good position. They're normally in shopping malls. We imagine that in the coming quarter we will be able to fragment this through several franchisees. The good news is that we have been opening new stores in Rio. Rio de Janeiro is something of the past and going forward we have to look at the market with new franchisees and CVC will have stores in other space.

### Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much for your answer.

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## Operator

(Operator Instructions) The question and answer session ends here. I would like to give the floor back to Mr. Falco for his closing remarks.

### A - Luiz Eduardo Falco Pires Corea

Once again, we would like to thank you all of you for participating in our conference call. As you know, our team is at your entire disposal for anything that you should need. We're working very arduously as we go into the Fourth Quarter. December is always very complicated and it is always good to take some vacation. Thank you very much for your presence. The conference call to release results for CVC ends here. We would like to thank all of you for your participation. Have a good day.

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