

Q4 2014 Earnings Call

Company Participants

- Luiz Eduardo Falco, Chief Executive Officer
- Luiz Fernando Fogaca, Administrative Vice President, Chief Financial Officer and Investor Relations Officer

Other Participants

- Alejandro Montero, Analyst
- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the conference call to discuss the Earnings of the Fourth Quarter 2014 of CVC. Today with us are Luiz Eduardo Falco, CEO; and Luiz Fernando Fogaca, Administrative VP, Financial Officer and Investor Relations Officer.

This event is also being simultaneously webcast on the website www.cvc.com.br/ir by clicking on the link webcast 4Q'14. The presentation slides are also available for download on the webcast platform. The information is available on -- in rials and were prepared according to accounting practices adopted in Brazil. Based on interpretations, requirements and guidelines issued by the Brazilian Financial Reporting Interpretations Committee, CPC.

Before going on, we would like to mention that any statements made during this conference call relative to CVC business outlooks, projections, operating and financial goals are based on CVC's management beliefs and assumptions and rely on information currently available. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions since they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other retreating factors may affect CVC's future performance and lead to results that will materially differ from those in such forward-looking statements.

Now we're going to turn the call over to Mr. Luiz Eduardo Falco of CVC that will start the presentation. Please Mr. Falco, you may go on.

Luiz Eduardo Falco {BIO 17914305 <GO>}

Well, good day, everyone. It is a pleasure to start this conference call to discuss the earnings of the fourth quarter and the year of 2014 as a whole. You know that CVC completed first year as a public company, as we're going to say that most of the indicators that we reviewed in the company's IPO were to leverage during the year of 2014. So we strongly thank those shareholders that believes our business model and the best way to get back to the shareholders and all others that want to trust the team is to continue to deliver the growth that the company management believe it's possible and also pay back in terms of dividends, which is the direct [ph] way of sharing company results.

As for our agenda today, we're going to talk about first the company performance in 2014 and recent actions developed and then we're going to show our financial results and then as usual we are going to open for Q&A. So we are starting on slide number three. Despite a challenging economic scenario and the performance of non-recurring events like FIFA World Cup and Presidential elections which were highly paralyzed, the company grew in line with its historic growth and expectations released in our IPO, showing that the resilient of our business model.

Since the beginning of the new management in March 2013, CVC showed six quarters with strong growth out of seven quarters. One quarter was that fully impacted by FIFA World Cup which hit in a negative manner retail and the tourist segment in Brazil.

Going to slide number four, you can see that we had growth between 12% and 13% in the months of November, December and also in the beginning of January, in line with historic growth. We had opened 63 new stores in the fourth quarter 2014 with altogether 120 new stores opened in 2013 net and we went past our goal of 100 stores for last year.

Same-store sales grew by 6.8% in the fourth quarter, supported by several marketing initiatives, the development of more than 80 pieces of advertising material for our main destinations with more than 6 million brochures directed towards economic social classes. During Black Friday for instance in November 2014, we had record a daily sales and the same weekend sales reaching 23.4 million on a same-day and 34.4 million on a same weekend respectively.

In addition, we have been increasing other lines of revenues like the offer of hotels for short-term trips and business trips. Also in the international scenario, we increased the number of hotels we deal directly, 200 hotels approximately in 2013 to more than 900 hotels in 2014. All this initiatives strengthen our franchisees motivating them to continue expanding and our exclusive store network is one of the pillars of our business model.

Going to slide number five, we're going to talk a bit about our online platforms. In 2014 we created a new product area whose focus is short term trips and today we have several destinations to offer, to give you some examples Campos do Jordao, Buzios, Guarujá that are close to the main consuming centers. This segment grew by 80%

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compared to 2013. The segment is what we call, just a small get away on the weekend for people that planning -- sees the opportunity for leisure.

In October, we also launched a new online platform that really improve user experience and search engine, especially in the case of dynamic packages, which are our -- the mix of our sales. The stabilization process took three months and we went back to the historical levels of growth in the second quarter of December. This platform has already been approved and it's going to be in our stores until March 31, helping our sellers to also leverage our franchise channel by means of this technology. We have been improving consistently with website conversion rates, that more than doubled in the last two years and that really led to very strong growth in online bookings. We closed the year with 45% growth and our website has a high percentage of tour packages different than other websites and together with the strength of our brands CVC online is a very profitable channel.

As far as the year of 2015, despite the challenging economic scenario we have conviction that the company is going to continue growing at historic levels. We started the year with already two records at the month of January, the mass months in company's history in terms of consumed bookings and -- consumed bookings and we had 13% increase in bookings and 26% growth in consumed bookings as compared to 2014.

On slide six, I'm going to talk about our new corporate structure, for 2015 we're going to continue to grow. We (inaudible) our team by hiring executives with vast experience in the tourist retail business, they're going to work in key areas like National Product Sales and Operations. In addition, we also hired a new officer with student travel focus, we are going to launch this new business unit in March, and also will focus on the generation of new sources of income as car rental.

On slide seven, we are going to talk a bit about the acquisition of 51% stake with Duotur. In the end of 2014, we announced our acquisition of 51% of Duotur that is a leader in the airline consolidator market in Brazil with focus on business travelers. Duotur has a long-term relationship with the main air companies that operate in Brazil, they have 5,000 independent agents in the country. Duotur generated visas of BRL3 billion in the year of 2013.

Given the portfolio of products of CVC, if we put together with our strong relationship between Duotur and independent agents, and also a B2B platform that is leader in the tourist industry. We believe that we can leverage the strengths of both companies by offering corporate hotels and car rental in the sales channels where Duotur operates.

In addition, the role of Duotur as business partner of several air companies will lead to new opportunities for us to expand the offer of international products. Duotur has a very important role in credit analysis and granting, this credit represents 40% of its sale. Given its expertise in the analysis of credits and the spread of the customers portfolio, they had deep out of 0.6% in the total of reserves of bookings for 2013, which is 41% of the parts -- 0.41%, sorry, of the credit granted, which is very good leverage for the business.

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Last Wednesday, Taj [ph] issued the opinion for a positive clearing for the partnership. We are going to assess with our legal advisors what the next steps are going to be, so that we can finally incorporate Duotur and starts seizing opportunities of the two platforms together.

On slide eight, I'm going to talk a bit about the opportunities in the student travel business. We are developing a new business unit directed to the segment to offer short term courses between three to four weeks, focused on people above 18 years of age, to lead this project we hired executives that has vast experience in the area, who worked as a CEO at the Student Travel Bureau, one of the largest companies in the company.

With that, we're going to leverage our brand and because we have a very strong network of stores and favorable commercial conditions it's going to be a very good channel in this segment, that is profitable and has been growing at more than 20% a year.

Now, we are going to visit our financial numbers, and I'm going to turn the call to Mr. Fogaca, our CFO.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good morning, everyone. I'm on page nine, and we are going to talk about our numbers in terms of bookings and boardings. I would like to highlight our double digit growth both in bookings and boardings, despite the challenging economic scenario and non-recurring events like the World Cup and elections.

As for the fourth quarter of 2014, despite the negative impact of Presidential Elections in October, we had growth of 6% compared to 2013 and the fourth quarter bookings increased by 10% in the months of November and December we had very high growth at 12%.

Boardings and consumed booking reached 1.4 billion in the fourth quarter with a growth of 21% compared to the same period of 2013. This strong growth was based on several marketing and sales initiatives and also we had the postponing of the vacations of July because of the World Cup.

Now we're going to slide number 10, talking about the growth of store expansion and same-store sales. We opened 63 new stores in the fourth quarter with all together more than a 120 stores which meets our objective of more than a 100 stores a years. This new stores had sales similar to what we had in the stores opened in 2012 and 2013 and are on line with our expectations. As for same-store sales, we had growth of 6.8% in the fourth quarter of 2014 and 5.4% in the whole of the year, a number that was strongly impacted by the World Cup. Excluding this effect, same-store sales growth would have been 7.3%.

Going to page 11, we are going to talk about revenues and margins in the year. Net revenues was 220 million in the fourth quarter and 714 million in the year of 2014 with growth of 20% and 11.4% respectively as compared to the same period 2013. The percentage of net revenues over consumed bookings was 15.4% in the fourth quarter in

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the year, with a decrease of 40 basis points as compared to 2013. This slight reduction in the fourth quarter of 10 basis points is basically related to a higher percentage of international bookings.

Although the product mix has reached a level similar to 2013. As for the 40 basis points decrease in the whole of the year, this is also a result of a higher percentage of international bookings.

Going to page 12. Our EBITDA reached 117 million in the fourth quarter, 26% above the fourth quarter 2013. The adjusted EBITDA 125 million with a growth of 26% as compared to 2013. As a percentage of net income it's reached to 6.4%.

EBITDA and adjusted EBITDA reached 351 million and 374 million in the year of 2014 with an increase of 21% and 13.7% compared to the same period 2013. As a percentage of net revenues, the adjusted EBITDA was 52.4%, 1 percentage point above the previous year. As for margins, we had an expansion both in EBITDA and adjusted EBITDA due to a fixed cost leverage.

Going to page 13, the company shows strong growth in net income and adjusted net income in the fourth quarter and year of 2014, since show a better operational results and lower increase of operational expenses. Net income reached 59.6 million in the fourth quarter with growth of 49.4% compared to the previous year and adjusted net income grew by 41.2% in the same period. Adjusted net income and net income reached 174.9 million and 145.7 million respectively, growth of 30.5% and 15.6% compared to the same period of last year.

Going to page 14, cash flow generated by used in operational activities grew from 102.8 in the fourth quarter '13 to 126.7 in the fourth quarter '14 growth of 23.2%, especially due to the growth of net income and improved working capital, reduced from 27 days to 24 days in the period.

In 2014, the cash flow generated by operations was almost BRL250 million, 41% above that of the year of 2013 and which was basically used to reduce indebtedness with payment of 144 million of debt with the founding shareholder and also with reduction in factored receivables of almost BRL51 million. Additionally we made payments of 29 million in dividends and we also invested in IT infrastructure with 26 million in CapEx for 2014.

Going to page 15, we are talking about dividends and ROIC and as a consequence of the strong generation of cash of the company in the year of 2014, the Board of Directors accepted the payout of dividends relative to the fiscal year of 2014 with payment of interest on equity of 14 million of last December, the total amount of dividend was BRL97.5 million, which is equivalent to approximately 70% of the company's net income and a dividend yield of approximately 5.2%, assume the market capitalization of the last 30 days.

Return on invested capital was 48% in the last 12 months ended in December 14, 7.6 percentage points higher than the previous period. This is due to the growth of operating

results, reduction in PP&E and also a slight improvement in our working capital.

Finally going to slide number 16. We are going to talk about our net debt with a drop of approximately 200 million in our debt in 2014. The balance of our debt on December 31st, 2014 was 52.9 million and a 199.5 in the fourth quarter '13. Net debt was 124 altogether in December 2014, 321 in December '13, that is respective 0.3 times and 0.98 times the adjusted EBITDA. The strong reduction of Indebtedness has to do with the payment of debt to the founding shareholders and lower receivables anticipation.

Net financial expenses in the fourth quarter decreased by 3.4% compared to the previous period due to the reduction of our debt, already mentioned decreased and anticipation of received both and also an improved in our working capital. Financial capital reached 98.9 million in 2014, 8.8% above 2013 because of the exchange variation and decrease of financial revenues with a lower tax flow in the period.

Once again, we would like to thank you for joining us in this conference call and we are going to start the Q&A session.

Questions And Answers

Operator

Thank you. Gentlemen, we are now going to open for the Q&A. (Operator Instructions)
Our first question comes from Alejandro Montero from BTG Pactual.

Q - Alejandro Montero {BIO 19851498 <GO>}

Good afternoon everyone. I'd like to explore a bit, the increasing revenues that has been quite positive for the company. What I'd like to hear from you is the following. What are the reasons behind that, you have obviously shown a very important efforts in terms of new products being issued and commercial initiatives. And you also have scale which probably has an important role in this result.

But perhaps, this is also due to weakening of competition. So, I would like to know your view about the weight of each one of this factors and the row of credits. If you think, you are the same in terms of approving credits, if you are more aggressive or more conservative and if this has influence to your strong growth. Thank you very much.

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Hello Alejandro. Thanks for your question. We really thank you for that and also you helped me with answers. So I thank you for that as well. Of course, our commercial department has issued new products, we are opening stores, we're training people, we have lots of new advertising material in the stores. If you go and see that as, you're going to see there are lots of new destinations, the material is very nice and very appealing for us travel with CVC. But behind our debt, there is the resilience of our business, we have been working very strongly and we are listening the markets that we have a discretionary growth.

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So we don't necessarily agree with that. We see that the traveling is already part of the consumption of Brazilians. You see no one has stopped going on vacations, because there was World Cup in Brazil. People changed the timing of vacations, but they haven't -- not go on a vacation. So vacations, traveling is already part of Brazilians family consumption and we have several tools that will help on that, to make these vacations affordable for consumers and one of them you already mentioned is credit.

Granting credit is very important, it's something that leverages the possibility of travelling and it is basically using retail as a whole and also in the traveling business.

So CVC growth is a reflects other markets that already exists in the country regardless of a better growth or worst growth in our GDP, the traveling segment growth at a fixed rate a year and the idea is to capture as much as possible in the market using credit tours that will make traveling more affordable to consumers. Also its' very important for us to develop partnerships with different suppliers. So more and more suppliers understands how CVC can generate value in their business and we have been working closer with the suppliers, air companies and hotels to leverage their business as well. By doing so we continue with very strong sales.

Q - Alejandro Montero {BIO 19851498 <GO>}

Well, thank you very much Falco.

Operator

Our next question comes from Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello, good afternoon everyone. Congratulations on your results. I would like you to elaborate a bit on Duotur. As you mentioned before, some what I understand you have the payment as the deal is confirmed and I believe that this is going to happen in the coming weeks and how you're going to finance the payment?

And in addition to that, you showed your numbers of January that are quite encouraging but also I would like to know what your mix is like? That is, is international travelling growing, is the volatility of the currency causing any retraction in the segment in terms of travelling overseas. So what are things like.

And third, you talked about e-commerce. So I would like you to elaborate that a little. And there was a bit of retraction in e-commerce although you had a good year. So, I would like you to elaborate a bit on that.

A - Luiz Fernando Fogaca {BIO 18466257 <GO>}

Hello Andrea, good morning. This is Fogaca speaking. As far Duotur, once the transaction is completed, I think that the confirmation of the favor opinion has just been published at the Federal Official Gazette, we still have some steps to complete the acquisition, but

once it is completed the payment is up BRL54 million that are already planned in the company's normal cash flow. Then we have six annual installments of 29 million but they are already parts of our cash generation.

As for January and December, international traveling continues to grow and the good news is that domestic traveling already went back to historic growth levels double digit. So that's showing also the strength of our domestic destinations.

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

This is Falco, for our e-commerce online platform. What happened is that we had a major channel change, sorry, on our online channel, we started in the second half of October. The reason was to improve navigability and conversion rates. This is a major platform. In our plan, this is going to support, our online businesses, that also our agencies and stores. So we call it online, e-commerce platform, but it gives the company IT platform.

With that said, it's online because we have more people browsing the internet because there are more people testing the structure and then it was a bit more affected adversely as anything new in IT, especially when you have major changes. We have a period of adjustment. But now in January, we have resumed our conversion rates and on March 31st, we are going to roll out the platform for all the other channels, franchisees and independent agents that will also be able to make use of the same platform with some individualities for each channel.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So what you're saying that this is already being reflected on January. So in January you already seen an improvements of your e-commerce?

A - Luiz Fernando Fogaca {BIO 18466257 <GO>}

Yes. It is already growing quite strongly, as we had expected and we already capturing a sales, the platform is quite stable right now. So for you to know Andrea, in the second half of December where the company was already stable we had growth on line of 30% as Falco, mentioned in January, we are already are completely normalized in terms of growth online.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Thank you, very much.

Operator

Our next question comes from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Hello, good afternoon, everyone. Congratulations on your results. You talked about growth for 2015, you expect it to be between 12% to 13% growth in terms of bookings. I

would like you to break down growth a bit in terms of same-store sales, new stores and e-commerce segment.

You talked about 7%, 2014, except for the World Cup event. So I would like to know if you're going to keep the same level and how many stores you want to open in 2015.

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A - Luiz Fernando Fogaca {BIO 18466257 <GO>}

Hello, Franco. This is Fogaca speaking. We do not to disclose our growth guidance, but what we say is that our objective is to continue growing in line with the historic growth rates of the company that are about 12%, 13%. As far the breakdown our objective is to continue opening 100 stores for the year, same-store sales is also to grow by about 7% compared to last year, excluding the World Cup effect and online we want to continue growing strongly and we believe we still have loads of opportunity to be seized in this channel.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you very much and just one question about Duotur. You had mentioned the numbers of 2013 for the company. How about 2014, the EBITDA margin in 2013 was about 2% of the total bookings. Is this margin basically the same for 2014. Was there any change for the year?

A - Luiz Fernando Fogaca {BIO 18466257 <GO>}

As far as bookings there was a growth of 7% in the year obviously, the business segment was highly affected with the World Cup and elections. Financial results are still being completed, but the trend is to have an improvement in the ratio margins of the company.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. Just a final question, you had the payout close to 70%, will that be a level to be maintained from further on or that will depend on cash generation?

A - Luiz Fernando Fogaca {BIO 18466257 <GO>}

When we had our IPO, we had said that we would work with a minimum level of 50% depending on the results that will be reach, we could go up and depending on the opportunities for the use of cash that we had, we could decrease that.

So once again, we are going to work with a minimum payout of 50% and we avoid going to played out depending on opportunities. We have to think on opportunities in the eyes of the company's ROIC the opportunities do, that should be quite interesting to compete with dividends. But if they do come up, that will generate wealth to our shareholders in terms of acquisitions. Otherwise, we are going to work with levels above 50%.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you very much and again congratulations on your results.

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Operator

(Operator Instructions) Our next question comes from (inaudible) from Itau BBA.

Q - Unidentified Participant

Hello everyone, good afternoon. I would like to talk about the student travel channel, you said that that is going to be a priority for the company. I would like to understand you might set forth this market, if within five years time you'll have a very successful operation, what is the share of this line and also the total profitability of this business. I think this would be very interesting. Thank you.

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

This is Falco, well, the current market is 1.2 billion, but we understand that as CVC did last year when it granted access to the lesser traveling charter and social class, we can do the same with student travel, one thing is the student exchange program when you'll have one student come here and the other students going abroad, we want just student traveling, which is very similar to our package. You have an air ticket, you stay somewhere which can be a college campus or house or hotel and you pay for the course and the package is very similar to our packages. Therefore very easy for our networks to absorb and sell.

But talking about numbers in two or three years if we are successful in getting access to world economic classes and we see that there is a demand for that and low competition. People who go on vacation also want to study in aboard and this is very interesting and this is nice for same-store sales. We believe that this can get to close to BRL3 billion, this market in the next two or three years. How much is going to be our sale?

Well, according to us 100%. This is not always possible but we will try. Obviously there are important players in the market that have been established for long and they operate the market with deep knowledge we are just new entrants, we want to open market, we don't want to dispute the market that's already at risk although we close -- we'll close deal with more than a 1,000 stores. We will try to get a share of the market and then you can make your projections in two or three year's time and to see how much we are going to have.

As far margins, I think they're very similar to our CVC packages that is a markets with good packages, good margins and CVC because of its scale will be able to benefit from this market.

Q - Unidentified Participant

Thank you very much. So if you had to say one challenge for this markets to come through, what would that be?

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

I think the major challenge that could happen although it's quite unlikely is the visa, you know that you need special students visas in this market. This is a challenge, I believe but I don't think it's going to be a problem because tourism is something that generates wealth everywhere. So people and in the whole of the world once you receive students and also we have to have good execution and this market we have to perform well, we have to be very professional with lots of discipline to try to increase this market that today has the size that can more than double in the future. So we believe.

Q - Unidentified Participant

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Well, thanks for taking one more question. You are talking about this students travel market, assumes to be appealing and from what I understood you are trying to work on it without acquisitions directly. I hope, I should understand between this, others segments, you see opportunities for M&A, that you said, that in the beginning it's going to be the focus, Duotur but what are your next steps?

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Well, it's the two things. Of course that is very important for us to integrate Duotur to make sure that we seize all opportunities but in parallel to that and we have been doing that for two years. We are always looking into the market and we are always paying attention in students travelling for instance at first we decided to do it in house but and -- in the case of Duotur that we had a different understanding that we should acquire the company, but we're always open to new opportunities.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. Thank you, very much.

Operator

(Operator Instructions) Thank you. We are going to turn the call back to Mr. Falco for his final considerations.

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Well, I would like to thank you very much for joining us today, remember that's our team is all together to provide any clarification to the market. If you have any questions or doubts about our presentation Fogaca and our IR team are here for you. And I wish you a good day, good work, we are going to going back to work. If you have worked too hard and you need vacations, just remember that CVC is always ready for you. Thank you, very much.

Operator

CVC conference call is now closed. We thank you very much for attending and have a good day.

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