

Q1 2018 Earnings Call

Company Participants

- Leopoldo Saboya, Administrative Vice President, Chief Financial Officer and Investor Relations Officer
- Luiz Eduardo Falco Pires Correa, Chief Executive Officer

Presentation

Operator

Good afternoon. Welcome everyone to CVC's First Quarter 2018 Results Conference Call. Today with us, we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Leopoldo Saboya, Chief Financial Officer.

Today's live webcast and earnings release may be accessed through CVC website at www.cvc.com.br/ir. We would like to inform you that this event is recorded, and all participants will be in a listen-only mode, during the company's presentation. After CVC remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company's website. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of CVC management and on information currently available to the company. They involve risks and uncertainties because they relate to the 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.

Now, I'll turn the conference over to Mr. Luiz Eduardo Falco, Chief Executive Officer. Mr. Falco, you may begin your conference.

Luiz Eduardo Falco Pires Correa {BIO 2070861 <GO>}

Thank you, Brazali [ph]. Good afternoon, everyone. We are pleased to begin our conference call to discuss CVC Corp results of the first quarter 2018. Regarding today's agenda, as always, we will talk about the main events on the first quarter; then we will present the financial results; and lastly, we will begin the Q&A.

To begin, I would like to talk about the highlights of the first quarter on CVC Corp. Please slide number four. In this quarter, CVC Corp bookings grew 12.7%, highlighting the double-digit growth as represented in all quarters of 2017. The increase on the first quarter 2018 was driven by a good performance in the leisure segment, which grows more than 12%, on the corporate segment which grows more than 10%, and also on the online segment with Submarino Viagens.

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In the first quarter, all the channels showed double digit growth highlighting the online channel that grew above 25%. In January, we implemented a new organizational structure, as we mentioned on the fourth quarter, aimed at capturing operational synergies and generates greater integration between the business units.

In March, as a material fact, we published on March 26, the new CFO, Leopoldo Saboya, was appointed and the new CEO, Luiz Fernando Fogaca was approved to take place on the beginning of 2018 (sic - 2019).

During March, CVC held in Dubai its first sales convention outside Brazil and more than 1,500 people attended the event, including franchisees, employees and suppliers. In Dubai, we present the new marketing campaign Que ferias voce quer? A CVC tem, which means, which kind of occasion do you want? We have it. And we present everything that CVC provides to the customers including a wide variety of destinations and products with flexibility and personalized service, in addition to democratization of tourism in the country.

Going to the business units highlights, CVC Leisure ended the first quarter growing more than 13.4% in bookings with the same-store sales growth of 11.4%. We opened nine new stores with 95 net openings in the last 12 months. RexturAdvance grew more than 16% on the first quarter 2018 totalizing 728 million in booking. Submarino Viagens improved the product mix in the quarter and posted a strong growth in bookings. Experimento ended the first quarter with bookings growth more than 13% and two new stores with 15 net openings on the last 12 months.

On the slide number five, we show some pictures of the event of Dubai just for our investors to understand what the sales convention and how is the power of this channel. This event also was used to make more training to our workforce and it was very well accepted. As it is a World Cup year, we held a lot of suppliers and we have Pele with us on this specific.

On slide number six, we will present the new organization structure, which is Matrix one. The new organizational structure as mentioned before is based on the concept that who do not work in sales work for sales. We now have six business units under CVC Corp umbrella, and all support areas providing service to the business units.

On the slide number seven, we will talk about the main financial indicators of CVC Corp that showed growth in its main metrics. As you can see, CVC Corp bookings totalized BRL3.1 billion on the first quarter grows about 12.7% versus the first quarter 2017 pro forma. Net revenues reached BRL385 million, representing an improvement of almost 9%

when compared with first quarter 2017 pro forma. Adjusted EBITDA grew 13.5% and adjusted net income grew 34.6% versus first quarter 2017 pro forma.

Now for the results, I will pass to our new CFO, Leopoldo Saboya, who is going to talk about the financial results of the company. Leopoldo, please.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Falco. And first of all, I'd like to say that I'm very honored to be part of CVC team; and second, to mention that all the comparisons that I'll make will be against Q1 2017 in a pro forma basis. If not, I'll let you know. Okay.

So, talking about bookings by segment on the slide nine, we have here the split of our growth and results of our bookings by segment. In the leisure segment we posted 12.6% growth. This increase was driven by the strong growth in cruises and international segments, specially the European Circuits.

On the corporate segment books increased 10.5% in Q1, due to the good performance of RexturAdvance that grew more than 16% in the quarter.

The bookings of CVC Corp reached and totalized BRL3.1 billion in Q1, representing a 12.7% growth. It is important to highlight that the double-digit growth in the quarter was on top of a double-digit growth basis saw in 2017.

On slide 10, we will break down the booking by channel. The online channel recorded a rise of more than 27% in Q1. Submarino Viagens presented a strong growth in the period as observed in the last two quarters. Worth mention that we are growing high 20s while achieving positive EBITDA. Also good performance in the exclusive stores that grew 14.2% and independent agents grew 10.2% also sustained bookings growth in the quarter. On the right hand side of the slide, we have here the same store sales performance, and we are posting 11.4% growth pretty solid.

On slide 11, we have little more details on our net revenues. So, the net revenues of boarding-based business units CVC, Experimento, Trend and Visual totaled 322 million in the quarter, representing growth of 7.7%. The take rates was 14.4% in Q1, decreasing 15 bps in the period due to a greater mix in international travels that faces is structural lower margins as you may know.

Net revenues of booking-based business units like RexturAdvance, and Submarino Viagens totaled 63 million in Q1 representing growth of 15.2%. The take rate of that -- of those segments was 6.5 in Q1, reducing 30 bps against leisure. Reasons why. On RexturAdvance it was due to a greater mix in the international segment, same thing as in CVC, and also by lower incentives paid by airlines, particularly in this quarter in the corporate segment.

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In Submarino Viagens on the other hand take rate enhanced in line with the increase in travel packages and hotel sales in our OTA platform, which have a higher take rate partially offsetting the reduction in the corporate segment. With that, CVC Corp net revenues totaled 385 million in Q1, 8.9% above last year figures.

On the next slide, we are giving more details on our operational expenses. So, first and foremost, the G&A expenses in Q1 decreased 4.5% as a result of synergies captured. The recurring operational expenses grew 4.6% in the first quarter, mainly due to the increase in marketing expenses that in line with bookings grew of more than 12% with the event held in Dubai.

Moving to the next slide, summarizing our EBITDA performance, it's pretty remarkable to mention that our EBITDA margin reached 52.2%, which is a 210 bps above last year. Bear in mind, that we are reaching this performance with its two minor synergies from recent acquisitions Trend and Visual, although in line with the synergy plan. The EBITDA adjusted was 201 million in the quarter, representing a growth of 13.5% against last year pro forma basis.

Now with the bottom line of our balance sheet, our net income which totaled 92.2 million in the quarter 34.6% above last year. Q1 earnings growth was driven basically by the EBITDA growth, 13.5% improvement as the reduction of 20% in financial expense. It's not in this slide though, but it is in our release that our adjusted EPS that was \$0.63 that is \$0.13 above last year-figure, attesting how accretion for shareholders has been our M&A's execution and organic growth in this period.

Now moving to our cash flow, balance sheet and ending with our net asset performance. Let's move to slide 15, that is our cash flow. So first of all, it's important to mention that we did some adjustments here to compare apples to apples in the chart on our left hand side.

In Q1, CVC Corp had an operating cash consumption net of investments of 314 million. But we need to do two adjustments to compare in the same way. First of all, we need to exclude the effect of Trend and Visual acquisitions, whose balance sheet was not in 2017. So this is all the working capital that belongs to those businesses, and the extraordinary effect of the judicial deposit, so then we can compare apples to apples. The cash consumption in Q1 2018 should have been 188 million versus 261 million in Q1 2017. And bear in mind that we are talking about the quarter that is typically heavier in terms of cash consumption in the year where typically we generate more cash towards the any of the year.

Let's move now to next slide 16 that we give more details on the working capital and ROIC of the companies. Here again we need to make the same exclusion of Trend and Visual acquisition in 2017. So when we excluded those companies, the working capital has improved 10 million, and even considering the effects mentioned before like the judicial deposit, the working capital improved three days in the quarter because the business of Trend and Visual they have shorter cycle of cash conversion.

On the right, the ROIC of 25.2% LTM ended March 31. It is a result of seasonally heavier quarter on supplier payments. But comparing to Q1 last year, the ROIC grew by 60 bps.

Moving to slide 17, the net debt reached BRL1.4 billion on March 31 against 1.1 billion on same period last year. It represent 2.16 times net debt to EBITDA against 1.98 times in last year in this figure. Excluding the receivables, Q1 leverage was 1.71 times. The net financial expenses, basically the cost to serve the debt fell by 51% in Q1 2018, due to the drop of the CDI rate, debt amortization related to acquisitions, reduction of company's debt costs and higher revenue from prepayments to tourism services suppliers. The rise in expenses on the other hand related to bank slips was due to the rise in the company's bookings and the greater mix of this payment type, which increased from 26.2% in Q1 last year to 36.8% participation in Q1 2018.

So having said that, we now turn to Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) As there are no questions, I'll turn over to Mr. Luiz Falco for final considerations. Mr. Falco, you may give your final considerations now.

A - Luiz Eduardo Falco Pires Correa {BIO 2070861 <GO>}

Okay, Renee [ph]. Thank you very much all of our shareholders and all the people which are on board on this conference call. We are very proud to our results. We think Brazil is a very difficult environment, but CVC has proved its resilience and keep going very, very predictable on the quarters -- on the last five quarters. And tell our investors that we are proud also with the confidence that you have with us, and see you on the next conference call. On the meantime, if you have any doubts, please do not hesitate to make contact with our Investor Relations team, which are here to serve you. Thank you. Have a good afternoon for all of you. Bye-bye.

Operator

Thank you. This concludes today's CVC's first quarter 2018 results conference call. You may disconnect your lines at this time.

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