

Q2 2015 Earnings Call

Company Participants

- Luiz Eduardo Falco Pires Correa, Chief Executive Officer
- Luiz Fernando Fogaca, Chief Financial Officer

Other Participants

- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Robert Firth, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen and welcome to the Conference Call to release the Earnings of the Second Quarter 2015 of CVC. Today with us are Luiz Eduardo Falco, CEO and Luiz Fernando Fogaca, Administrative Financial and Investor Relations VP. This event is also being simultaneously webcast on the website www.cvc.com.br/ri. Please click on the link to webcasts 2Q '15. The slides of the presentation are available for download on the webcast platform.

The information is available in Brazilian reais and we're prepared according to the accounting practices this is adopted in Brazil based on the guidance, interpretations and some decisions issued by the Accounting Committee in Brazil. Before starting, we would like to mention that any statements made this conference call relative to the CVC's business outlooks, projections, operating and financial goals are based on the beliefs and assumptions of the company's management 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 operating factors may affect the future performance of CVC and leads to results that will materially differ from those in such forward-looking statements.

Now we are going to turn the call over to Mr. Luiz Eduardo Falco from CVC that is going to start the presentation. Please Mr. Falco. You may go on.

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

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Thanks, Veniala. Well, good afternoon, everyone. It's a pleasure to start this conference call to discuss the earnings of the second quarter of 2015. As for our agenda today, we will first approach delaying actions developed in the second quarter '15 and then we are going to show our financial results. And later on we are going to start the Q&A session. So we start with the first slide. Despite the challenging economic environment, the company has grown in line with historic trends and with expectations released in our IPO. That's showing the resilience of its business model. Since the beginning of the new management in March 2013, CVC had eight quarters with strong growth in a total of nine quarters.

And the one quarter that was affected was in the World Cup that adversely affected retail and traveling segments in Brazil.

On slide five, I'm going to talk about recently developed initiatives by the company. We opened 15 new stores in the second quarter '15, totally those 105 net openings in the last 12 months and closing the quarter with 934 exclusive stores. In the same period same-store sales had growth of 6.8% in line with the growth of previous quarters.

We also completed the rollout of the new platform in our three channels -- sales channels exclusive source and independent agents and online. Our salesforce now has a much more dynamic tool and easy to use. The current scenario increased demand for trips inside Brazil, once domestic packages became more appealing compared to international packages.

We very fast adopted our product portfolio including several options of short-term products launch new promotional materials with national destinations and increase the presence of this products in our shop windows. We have increased our focus also in the sale of our products with higher value added such as insurance, car rental and tours among others.

In the second quarter '15, the sales of these products grew by 22% compared to the same period 2014. In line with our strategy to diversify and add other sources of income we completed negotiations with more than 800 corporate hotels which will now start to be sold in the month of July by Rextur Advance, the company that we are completing acquisitions now.

Recently we've been forced to our presence in the segment of corporate events and incentive travels by means of our partnership with an effective of large experience in this segment.

So we are (inaudible) this partnership brings new expertise to CVC and it's main focus was going to be provide services to my major corporation, incentive groups and we built opportunities of sales of other products such as hotels and air tickets. Finally we closed a partnership with Expedia and allowing CVC to have access to the company international hotel portfolio with more than 200,000 hotels throughout the world, which will increase our competitiveness in the International segment.

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On slide six, I'm going to talk about our online channel performance. Last year we launched a new online platform that enabled us to have lots of improvement in the user experience and in seeking for products and services, especially dynamic packages. After a normal periods of stabilization of the new platform compression rate has grown consistently in 2015 reaching the historical peak of 0.22% on average while sales in the second quarter 2015 grew by 27.7% compared to the same period last year in this online channel.

On slide seven, I'm going to talk about our new product of courses overseas. In the beginning of the year we launched CVC working with courses overseas, since then we already hired executive experience in the industry, completed negotiations with several suppliers and developed this promotional materials that those specifics with the start-up sales in the month of April.

In the past three months, we developed partnerships with 22 language schools and also with the EF Education First, the largest international education provider in the world.

In field that the peak of sales season goes from August to October, we had trained with more than 3,500 members and developed the page on Facebook for this product and now we are the first brand in the number of Google searches.

On slide eight, I'm going to talk about the acquisition process of RA. We hope to complete the transaction in the month of August, after finalizing the financial statements revision after the company and also completing the corporate organization that is ongoing. We have developed several actions to capture synergies and increase revenues.

One of them is to start the sale of corporate hotels on the Rextur platform in the month of July. In the first half 2015, Rextur advance RA sales to have an impact caused by the drop of demand of the corporate segment due to the deterioration of the economic scenario with drop of 4% compared to the same period last year. On slide nine, I'm going to talk about the status of the acquisition of Submarino Viagens, the operation was approved without restrictions by the CAD, the Brazilian agency. And we hope to complete the transaction in the third quarter migration of sales for the new platform completed in July. The acquisition will strengthen CVC's positioning as one of the leaders in the online segment in Brazil. And in online marketing and CRM knowledge in addition to provide access to a large customer base and creating opportunities for gain this scale and reduction of cost.

Additionally, this operation is in line with our strategy of position of CVC at the first Omni channel company in the segment of traveling Brazil enabling us to providing services to our clients seamless throughout our distribution channels. In parallel to that, we are working on integration plan to capture synergy between the two operations.

Now I'm going to turn the call over to Mr. Fogaca, our CFO.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

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Good afternoon, everyone. On slide 11, I'm going to talk about bookings in the company. Consumed bookings in the second quarter increased 12.9% compared to the same period last year with consistent growth throughout the channels. Consumed bookings through the independent agent channels had the recovery plan that we saw before with growth of 11.5% in the second quarter 2015 compared to the previous year. And this is basically related to the creation of a team dedicated to this channel.

In addition, the depreciation of the Brazilian real in coverage sales in the Domestic segment that has more representativeness in the independent agent channels. On the online channel, as we mentioned after the destabilization of the new platform conversion rates and consumed bookings have increased consistently reaching respectively 0.22% and 27.7% in the second quarter '15.

On page 12, I am going to talk about sales performance. We continue with our chances to expand stores opening 15 new stores in the second quarter which corresponds to 105 net openings in the last 12 months. We thus closed the quarter with 934 owned stores. As for same-store sales, we had growth of 6.6% consistent with the growth that was seen in the other quarters since the end of the FIFA's World Cup.

Going to page 13, I am going to talk about Boardings net income. Our billboarding has an increase of 12% in the second quarter and 14% in the first half of '15 in comparison to the same period last year. This growth was a result of several promotional actions implemented by our suppliers and several sales initiatives and marketing initiatives performed by CVC. Net revenues was 149.3 million in the second quarter, 369.4 in the first half, growth of 14.2% and 16.8% respectively in comparison to the same period last year.

Our percent of margin -- of net revenues over boardings were 15.9% in the second quarter, 15.1% in the first half, an increase of 0.3 percentage points when compared to the second quarter '14 and first half '14 due to a more favorable product mix.

Going to slide number 14, I'm going to talk about the financial results and EBITDA. Adjusted EBITDA was 56.9 million in the second quarter, an increase of 17.1% compared to 2014. As a percentage of net revenues, adjusted EBIT accounted for 38 points to 1%, an increase of 90 basis points compared to the second quarter 2014. It's important to mention that the difference between EBITDA and adjusted EBITDA in the second quarter is limited to the expenditures related to the compensation program based on shares. Adjusted EBITDA totaled 140 -- at 77.6 million in the first half '15, an increase of 19% compared to the first half '14. As a percentage of net income, adjusted EBITDA was 48.1%, 90 basis points above the first half '14.

Going to the slide 15, I'm going to talk about net income. Adjusted net income totaled 17.3 million in the second quarter, growth of 12.5% compared to the same period last year. Adjusted net income in the first half total 78.1 million grows up 29.4% compared to the same period 2014. Going to page to 16, we are going to talk about the generation of operating cash flow and working capital, the cash flow generated the operating activities increased 71.2 million to 102.3 million in the second half '15 basically because of the higher efficiency in the use of working capital compared to the same quarter last year, I'm sorry

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to the previous quarter. The operational cash flow in the first half of 2015 was impacted by the reduction of average times between purchase and boardings in the first half of 2015 because of the large amount of boardings on December 2014 that resulted in a higher value to be paid to suppliers in the first quarter this year, which was partially offset by the improved command observed in the operational flow in the second quarter '15.

It's very interesting to point out the seasonality of cash generation in the company. The second half of the year, historically has a strong cash generation due to sales to the high summer season, December to March. In 2014, CVC had 200 million in cash generation in the second half of the year.

Going to slide 17. I'm going to talk about investment and return on capital invested, because of our asset-light model we do not have significant investments in fixed assets.

Our investments are basically related to software and information technology systems. Investment in the first half of 2015 totaled 17.1 million and it's important to highlight investments to increase the capacity of the infrastructure in the company in the period. Our return on capital invested was 36.3% in the last 12 months. Closing in June 2015, 2.6 percentage points above that of the previous 12 months closed in June 2014. This increase is because of an increase in our operating results and the reduction of our fixed intangible asset.

Going to page 18. I'm going to talk about our indebtedness and financial expenses, the balance of our net debt on June 30, 2015 was 222.9 million taking into consideration advance receivables net debt was 260.5 million on June 30, 2015 equivalent to 0.65 times that EBITDA accumulated in the last 12 months. A reduction of approximately 93 million, compared to the second quarter '14. Financial expenses increased by 19.9% in the second quarter mainly due to the increase of consumed bookings and consequent increase of financial expenses related to funding and an increase in the interest rate of CDI as you can see on the slide. In addition, the annual comparison is impacted by the negative adjustment that are announced due to the founding shareholder in the second quarter of 2014. Since the IGP-M was negative in the period. Net finance expenses totaled 49.8 million in the first half '15 which is a decrease of 1.8% compared to the first half '14 because of gains with financial expenses and the exchange variation that offset the increase of financial expenses in the period.

Once again, we would like to thank you all for joining us in this conference call. And now we are going to open for Q&A.

Questions And Answers

Operator

Thank you. We'll now start the Q&A session. (Operator Instructions) Andrea Teixeira from JP Morgan would like to ask a question.

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Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello, good afternoon, everyone. I would like to ask a bit about the month of July. You obviously have a difficult comparison due to the movement that we had in the World Cup last year that had a very strong impact, but I would like to feel about what July is like this year. And also about Rextur and the closing of your negotiation, what the impact is going to be in terms of your balance sheet, are we going to see any impact. And also what you expect to see in terms of margins until the end of the year because of the synergies that you have with this acquisition?

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

Well, thanks Andrea. This is Falco speaking. Well of course we cannot disclose the month of July because we have discloses every three months, you're right. It's hard to compare, but we are positive, we can say that's on July 31, we had a record sales for CVC on a single day. Comparisons are difficult, but we are doing good, obviously to give you a full member, we will need to close the quarter. As for RA, basically we expect to close the operation this quarter probably in the month of August. As we mentioned before, we have a payment of 54 million and we have an amount to be paid in six years. This amount is maximum of 228 million as estimated before because of our more complicated situation in the economy in 2015. The price was based in 2014. So when we close the operation in August we are going to have seven months of 2015. So the price should be below the 228 million that we've disclosed in December last year when we acquired the company.

As for the balance sheet, we are going to have the indebtedness. Today we have 0.65 of indebtedness, with the acquisition it's probably going to be 1.1 times EBITDA. And the debt is collected by CDI with payment in six years. As for our margins from now on as we have been saying, we expect stable margins compared to the previous year. Until now we had had margin especially because of the beginning of the project, but in a conservative manner we prefer to suppose that we are going to keep the margins compared to last year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, thank you very much.

Operator

Robert Firth from Bank of American Merrill lynch would like to ask a question.

Q - Robert Firth {BIO 1983818 <GO>}

Good afternoon everyone. Congratulations for your results and thanks for taking my question. Could you talk a bit about the problems and opportunities that the bankruptcy of (inaudible) brought to you. And if you see other travel agencies with problems.

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

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Well, thanks, Bob. Well, whenever there is a major variation in the exchange rate. Some agencies that focus more on the international segment are affected. So this is not the first time that it happens in Brazil. What happens is that because the market is still there and there is the demand people just change operators in the case of (inaudible) it was very strong in travel agents and there is a channel went to several other operators. Some of it talk to CVC. In incentive, it was an area that we did not operate and it was an opportunity that post to us because the market has to continue. So this is something that came up. Other agencies that work strongly whereas international traveling are suffering because the dollar is building up, trips get more expensive and that took in a way discourages the market that one should travel overseas because we work in all segments, we are decreasing the international, but we increase the domestic market and thinks are okay.

But if you were exclusive with international traveling, it's a lot more difficult. You work in a niche segment and it is harder. And so I see that those that work in international areas are going through a bit more difficult period, but we as CVC have to be creative and we work with different offering, different destinations, with packages, without packages, make things more appealing, having customers paying more instalments and not all agencies, companies can't do the same, I have the tools to do the same.

Q - Unidentified Participant

Can you explain the impact of your hedge position?

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

Well, our franchise metric is a network that is aligned with 934 stores franchisees and it is very much alive. It performs in different manners, in different parts of Brazil, some areas in Brazil performed very well, others not that much, when they do not perform well, be them the master franchisees or the franchisees, the presumption of the company is to help to try to help to see if can do anything to reverse results.

But obviously, as any company if you have an area that is not performing you have to take action and sometimes replace an area (Technical Difficulty) actually we do with any company, we are not very much worried about the economic impact that this may happen, three of the four [ph] we are replacing with agreements that are bit more aligned, we do have a good (Technical Difficulty) that works well justifies. Now if you do not work as good, then it can be a bit heavy for you to pay. But we are replacing people in the beginning, as it was the first time our people found it funny. Whenever, it's the first time, people find it funny but now people absorb the idea, people are going after their goals and everybody is thinking about how we can do better.

I do not see a major problem or a major inconvenience in the network as a whole. What is the percentage of the network thus far franchisees represent. The ones that we are working with now that we are changing accounts for 7% of the revenues. As I mentioned, when you have 43, when you have a light network essentially you're going to have some setbacks along the time of our agreement. This is not what we want, might be opposite. We want to have and see if we can leverage the companies and to have the least impact possible.

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Q - Robert Firth {BIO 1983818 <GO>}

But that happens in (inaudible) sometime you open a store and you have to close it because the franchisee once the work okay it's not a good spot. It just part of the business. And about Expedia, when are you going to have this offering of hotels in your network?

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

Hi, Bob. With Expedia, we established a partnership with them. They have the Expedia experience, that is the company that buys hotel rooms for them, also they have partnership in several countries. In Brazil, CVC the largest company will give us the possibility of having access to 200,000 hotels to be sold online and offline.

I think this is something that was quite appealing to us is that they work with the same concept like (Technical Difficulty) four packages. So when those are so practically going to costs differently than in our package in CVC because 80% of our sales, our packages. We are going to have access to a very good product with appealing commercial terms and we are going to be able to offer them three sale channels (Technical Difficulty) not in the platforms to complete that in September and it's start offerings, (Technical Difficulty) as of October and Fogaca?

Q - Unidentified Participant

Do they have access to your inventory as well?

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

No, right now the agreement is for us to have access to their inventory outside Brazil, we haven't discussed that they will have access to our inventory in Brazil, not yet.

Q - Unidentified Participant

Thank you very much and I congratulate you once again. Thank you.

Operator

Franco Abelardo from Morgan Stanley, would like to ask a question.

Q - Franco Abelardo {BIO 17416219 <GO>}

Hello, good afternoon, everyone and congratulations on your results. The first question is with relation to boardings in the second half, you said that boardings should grow by more than 17% in the third quarter. I would like to know if the month of July tells us that this expectation is going to maintain if that can go up, if we can have even more boarding. So this is the first question.

And the second question is a follow-up on potential synergies that you can have with Rextur. You said that you would work with synergies and I would like to know if you have an update on that. And the final question is with regards to corporate events, what is the

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potential that you see in this segment and what that can it bring to CVC for you to start going into this division?

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

Good afternoon, well as for boardings as we mentioned in the end of June beginning of July we thought we would have more than 17% growth in the third quarter. As we mentioned, the trend has changed. The consumers are buying closer to the time of traveling. So we are seeing very interesting growth rates for the same month's boardings or the next month's boardings. So after a month that trend above 17 follows the same lines, so we suppose we are going to sell a lot for short-term boardings.

As for Rextur advance, we worked a lot with them in the past two months in analyzing synergies, we had lots of negotiations with them, one of them that is very important is the sale of corporate hotels, we started sale as a pilot in June and we're going to have rollout in the months of August to our Rextur agents in Brazil. And with that, we'll have a higher sensitivity of possible synergies, probably this one is one of the main things that is going to happen in the next two months.

Q - Unidentified Participant

Just one more question with the closing of acquisitions of Submarino and Rextur, are you going to have any other non-recurring expenses in the results?

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

Well as we mentioned before, we have auditing expenses lies in the first quarter was close to 2 million, we don't expect anything above that, auditing and lawyers. We don't have a advisors or anything to be paid.

Q - Unidentified Participant

Okay, thank you very much.

Operator

(Operator Instructions) I am going to turn the call over to Mr. Falco for his final consideration.

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

Well, I would like to thank once more for you joining us in this conference call and tell you that we are working very hard. Despite the market to be challenging this year and that Fogaca, our team are always here for you, if you have any questions or any further clarifications. Once again, I thank you, wish you a good afternoon. And if you're too much stressed don't forget to book your vacation with CVC, there is always a good offer for you. Thank you.

Operator

CVC's Earnings Conference call is now closed, we thank you very much for joining us and wish you a good day.

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