

Q1 2015 Earnings Call

Company Participants

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

Other Participants

- Andrea Teixeira, Analyst
- Fabio Montero, Analyst
- Franco Abelardo, Analyst
- Joseph Giordano, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, everyone. Welcome to CVC's First Quarter 2015 Results Conference Call. Today, we have with us Mr. Luiz Eduardo Falco, Chief Executive Officer and Luiz Fernando Fogaca, Chief Financial Officer. Today's live webcast and earnings release may be accessed through CVC's website at www.cvc.com.br/ir and you can click on the link. You can download everything from the webcast platform and our information has been prepared according to Brazilian Standards for Accounting.

Before we start, we'd like to mention that forward-looking statements are based on the beliefs and assumptions of CVC's management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to 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 from CVC to begin the presentation. You can take the floor, Mr. Falco.

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

Thank you. Good morning, everyone. It's a great pleasure to start this conference to discuss our results in Q1 '15. Just like in the past, we're going to talk about to the

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Company's performance in Q1 '15 and about our recently developed actions. After that, we are going to present the financial results and have a Q&A session.

I'll start with Slide 3, where I'll talk about the historical performance of the Company. Our economic environment has been very challenging and we had non-recurring events like the FIFA World Cup in Brazil and the Presidential Elections, but we have grown in line with historical trends and with the expectations we had at the IPO. So this shows we're very resilient in our model. Since March 2013 in the beginning of this new management. We had seven out of eight quarters of marked growth. One quarter was affected by the FIFA World Cup and this had a negative impact on retail in general in tourism in Brazil.

In Slide 4, we'll talk about recent initiatives. In this first quarter, we opened only five stores, which totals 105 stores over the last 12 months, but in the last quarter of last year, we opened 63 stores and that was very positive and probably you remember that we anticipated 20 openings that had been scheduled for 2015. So actually we've anticipated 20 openings last year and we opened five more. We had a growth of 6.4% in quarter 1Q15 in our same-store sales. In early April, we completed the rollout of our new platform of sales for the exclusive stores and for independent agent. Sales people have a much better tool now available, so we are more productive in using these new technologies.

As for the product management, we are focusing the domestic market more now and also, Europe, South and Central America. This way, we mitigate the appreciation of the dollar that had a negative impact and so, we are selling less packages to the US. So we are enlarging our portfolio, we are generating new income and this is due to new partnerships with 600 corporate hotels and we are offering that via our sales channels either through CVC or RA, the former Duotur. We are going to call it RA, Rextur-Advance from now on.

Our people are better prepared for the challenges of 2015. We had over 1,200 managers and salespeople from exclusive stores all over Brazil in our convention sales in March and there we presented everything that was new, packages and things we are doing for traveling abroad et cetera.

In the Slide 5, I'll talk about the online channel performance. In quarter four last year, we started a new online platform. This led to a very friendly platform for the user and there they are buying the dynamic packages which have been strong for us. This platform is now is stable, so it's growing and we have a very high conversion rate from underlying sales. Actually, the growth was of [ph] 17.5% in quarter one '15. We have a high mix of tourist packages in our platform. Our brand is very strong. So with this channel, we've been very profitable.

In Slide 6, I'll talk about our new product which is the Student Travel Abroad. We prepared this new segment from the beginning of the year on. We hired people (inaudible) for example, who you know, who are specialized, we negotiated with suppliers, we trained our sales force and we developed promotional materials. So we started selling in April 2015. We belong our positioning will be very good in this segment and we will have

capillarity with our franchises and our multi-brand agents and our suppliers also believe CVC is a very strong channel to distribute their products.

In Slide 7, I will talk about the acquisition of RA, Rextur-Advance, formally known as Duotur. So in early February, we had a restricted approval from Brazil's Administrative Council for Economic Defense, the CADE and now Ernst & Young is revising all our financial statements from 2014 and this will be completed next week on May 11 and we are revising all the results for quarter one '15 also.

We are going to have 71 million there as a growth of 11% as compared to the previous year. This is what our independent auditor said from our financial statements. We have to observe the term of 60 days to create the Newco and as soon as we have the audited figures, we are going to come back to you. We hope to have this completed by August 1. Together DTI [ph] people we've been working to integrate RA to the technological platform and also we have developed partnerships with corporate hotels that are going to be offered via our channels and the RA platform. And we hope to have these completed by the end of May. We are working very hard on all the synergies we have to complete this by the end of this month.

Now, Luiz Fogaca, our CFO will talk about the figures we have to discuss with you.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good morning, everyone. On the Slide 8, we will talk about boardings in this quarter. We had a much growth of boardings in all channels. It's a challenging scenario, but we are offering promotions via our suppliers; both airlines and hotels and we've had reductions of 7% in prices and a much growth in passenger number, which is 20% higher now. The online channel consumers are more price sensitive and the average price was reduced 16% in this channel, especially because of this unique mix of products and the number of passengers increased over 40% in the same period of time.

In Slide 9, you can see the boardings, those were consumed bookings. As for boardings, they increased and they are over 1.5 million now, over 15% more in Q1 '15 as compared to Q1 '14. We had a much growth due to various initiatives in marketing and sales and especially because people delayed their holidays from July last year because of the World Cup, so they moved to January '15 or December 2014. Our gross income was 220 million in quarter '15, an increase of 18.6%.

EBITDA is in Slide 10. We had a growth of 15.6 in quarter one, 112.8 million and the adjusted EBITDA is 120 million or 20%. As a percentage of net income, the adjusted EBITDA corresponds to 54.8, an increase of 0.6 percentage points compared to quarter one '14. So these are non-recurring items, so they have to do with our expenses on payments of stock options, mergers, and acquisitions and the extraordinary bonuses.

In Slide 11, we can see that we had a marked growth in net income and adjusted net income. We had an increment in operational results and a decrease in financial expenses. Net profit total was 52.3 million in quarter one '15, a growth of 33% as compared to

quarter one '14 [ph] and the adjusted net income increased 35.1 in the same period of time.

In Slide 12, you can see that the cash flow (inaudible) in operation activities increased from 65.3 million in quarter one '14 to 158.2 million in quarter one '15 due to a more marketing need for working capital. So the growth was 21% of the boardings in quarter four '14. So our consumers are now buying their travels with less advance, so it was 75 days in advance in quarter one '14 and 70 days now in quarter one '15. The Company's working capital is seasonal, in the first quarter historically we have to pay more to suppliers, because we have more boardings in quarter four. So we have to pay the hotels 30 days later. We had this use of 65 million from working capital last year too and in December, especially last year we had the same, so it causes a large impact.

So if we consider debt, the average working capital was last year 325 million and as an exercise, if we think about a growth in sales of 10% and an increase of two to three days in between booking and boarding, so in a year hypothetically, we would have 65 million and last year, the Company generated over 250 million in cash flow after CapEx, so it's nothing relevant, does not affect the cash generation. So there is this concentration in this first semester and there was this increase because of the fact I mentioned before.

Return on invested capital was 31% over the last 12 months and in March 2015, 1.4 percentage points above the last 12 months and (Technical Difficulty) in March 2014. So this is due to the growth in EBIT and reduction of plant, property and equipment.

If we go to Slide 13 [ph], we're going to talk about the debt structure. The debt balance on March 31, 2015 and March 31, 2014 was 180.7 million and 191.8 million respectively. If you consider factored receivables, the net debt was 294 million on March 31, 2015 and 412 in 2014 due to the company's needs for working capital, including 83 million paid in dividends, the payment of 54 million this year towards acquisition of RA and we needed working capital, because then CVC had made two bank loans on March 2015; one of 150 million for three years, 12 months grace period for amortization with a cost of 107.5% of CDI and the second was 110 million for seven months, achieving [ph] seven months, with a cost of 100.5% of CDI. Due to this new debt profile, we are going to have a cost decrease, a weighted cost decrease of our debt from 112% of CDI in March 2014 to 105 in March '15.

Now in Slide 14, according to our AGM in April, we are going to pay dividends on May 11, amounting to 83 million, referring to fiscal year 2014, considering the payment of interest on old capital, amounting to 14.5 million made in December. We are going to distribute a total of 97.5 million in dividends relating to fiscal year 2014, which is 70% of our net income.

We are going to now open for the question-and-answer session.

Questions And Answers

Operator

(Operator Instructions) The first question is by Andrea Teixeira from JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good morning. Thank you for taking my question. Congratulations on the result. I wanted to check only, in the results for quarter one, we had this differential difference in sales. Of course, if we see as to previous sales, not boardings that grew more markedly. But just to know about the second quarter, because basically you fell 70 to 75 days in advance, so you can compare that with the previous year, when we had the World Cup. So what's the demand you have right now?

And you also talked about the decrease in prices and tickets. So what can we have in mind for the future for quarter two?

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

As for prices well, consumer prices, they are at level as compared to quarter one. As mentioned before, we had the short term impact on international travels, especially because of the appreciation of the dollar we had in March, now we are closer BRL2, BRL3 [ph] which is more normal, but domestic sales are growing a lot and for us, this is 60% of total sales. So as we have fewer days between booking and boarding, so this is different from the previous 18 months. We are having more people boarding out.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So if we project that for quarter two, the sales uptick is good and the growth in packages too, but we could have decreasing prices, the prices of packages or not necessarily?

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

Well, I'm not talking about growth estimates in this quarter, but let's talk about the behavior. This will be fairly similar to quarter one. The average ticket will go down. In the quarter one was 7%, but we had a growth in passengers that compensated the decrease in price because in reals, passengers can afford more, but the increase in passengers we had, was very healthy. We will have the same in the second quarter or where we have less.

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

Well Andrea, this is Falco. Actually, it's a marked event and we can easily understand it. We sell for holidays. People buy holidays in dollars as the dollar is volatile, they wait for the lower exchange rate, they wait for the dollar behavior to pay less, because of costs there, they are going to spend less for their holidays. So this is why people are waiting and they are buying much closer to their boarding date. So this went down from 75 to 70 days in average, which could see that in quarter one already. So if the average price goes down, we have strong promotions from airlines and hotels prices go down, but the number of passengers increased. It grew a lot. We showed that in our results. So as we are very strong brand, our market share grows. So when people want to buy holidays, they want to

buy from a solid and reliable company. They know they are going to board and CVC offers all that to the market.

So eventually you're going to see that, they buy much closer to the boarding date, but we have more passengers. So this is the behavior we can observe. As for the dollar, March was very volatile. We had some volatility in April, but the exchange rate is close to BRL3 now, but the behavior changes from week-to-week. We cannot forecast that for the whole quarter. But in general, the company has been following these figures since the IPO and one thing has been compensating the others and we changed destinations and people go on holiday to (Technical Difficulty) place or to another place.

If we consider the data from quarter one, sales grew 11, boardings grew 16% and we had more people who delayed their holidays from July last year to December and January. So we had more boardings, 25% more boardings in December and January. This is higher than our normal figures.

So 11% in sales is more in line with our history than 60% increase due to boardings because this is coming from people who delayed their holidays from July last year to January or December.

Operator

Our next question from Fabio Montero from BTG Pactual.

Q - Fabio Montero

Good morning, everyone. I'd like to talk about the synergies. You've just mentioned about RA and specifically about hotel strategies. How much commission do you pay? You said it's about 6% -- well, the commission you get, sorry, that's what Duotur used to get. With a broader mix of hotel, what is the horizon you have in terms of commission and how long will it take?

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

Good morning, Fabio. If we think about the industry as a whole, they are close to 5% in tickets. As for corporate hotels, companies that work with this product, only are closer to 10% or 11%. So the weighted result in the medium-term two to three years, so Duotur would be at 20% and this would mean an increase of 1 percentage point in our average for the company.

Q - Fabio Montero

Okay. Do you think you can get to 20% when?

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

In three years I think, if we consider market size right now.

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

This is Falco, Fabio. Duotur's traffic is mainly connected to business. So most of the tickets we sell is people travel early in the morning and come back late in the afternoon, they don't need a hotel. So it's 20%, but that's not (inaudible) to penetration. Penetration is much more market. But many do not need hotel services, that's the difference.

Q - Fabio Montero

Another question. What about the industry dynamics, if the market is growing, what you have in mind in terms of share?

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

I don't have any figures about market growth.

Q - Fabio Montero

But can you say something about competition in your industry?

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

Well, we have been affected in all industries. Tourism is no difference, but regulations are on our side. People want reliable companies. As for competition, those that do not offer this reliability or not well known brands, they suffer more. CVC during crisis has grown in market share. So our competitors have been suffering more than we are and while these remains the same, I think the behavior will be the same. They are not open capital companies, so we do not know their figures, but what we hear is that, they are facing a lot of difficulty because their brands are not strong and they don't offer this type of reliability.

You wouldn't buy from a company if you're not sure you're going to board for your trip. So during crisis, this is when CVC grows because of our strong brand and our reliability.

Q - Fabio Montero

Thank you.

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

Consumers trust us a lot.

Operator

Next question from Franco Abelardo.

Q - Franco Abelardo {BIO 17416219 <GO>}

Congratulations on your results. This is just a follow up on the question on growth in quarter two. What we can see in these figures here is that bookings in semester two in 2014 had a decrease of 4% because of the World Cup. So there will be a growth in

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quarter two this year or not or we have a decrease in quarter three, what type of seasonality do you expect for this year?

A - Unidentified Speaker

Well, in quarter two last year, we had the World Cup effect with a decreasing 4% and we have had a growth of 25% in 2013 when we changed our management. So if you see the cumulative results for two years, we had an increase of 11%. We were more effective in May and June last year, because of the World Cup, but we have expectations for this year. I think we're going to have a positive effect and we are going to sell more I think, but in May, we are going to notice that in June too.

April was not typical as compared to the previous year. February also was different, because of Carnival and in April, we had too long holidays, so it's difficult to compare to April last year, but we're going to observe that in May.

Q - Franco Abelardo {BIO 17416219 <GO>}

So April was favorable for you, if there were these two long holidays?

A - Unidentified Speaker

Well, when there are two, three days, holidays in the same month, then people travel more, short trips and we do have so many boardings. So we had less business days in April, that's why we were affected negatively.

Q - Franco Abelardo {BIO 17416219 <GO>}

As for the product margin, the relation between net sales and boardings or bookings and boardings, you sold more domestic packages, so how did the margin improve? Did these promotions help, the promotions you had with airlines and hotels, how much of that comes from your net income?

A - Unidentified Speaker

Well, the effect comes from the mix. It is beneficial, if you look forward, if we keep the current conditions with domestic growing more than international because of the exchange rate and the margin [ph] is larger in international. So we should be neutral as compared to last year, but we opened new stores and repaid commission and we have our own stores where we do not have commissions. So if we dilute that overall demands especially with the increasing domestic sales, you see, I think one thing is going to compensate or set off the order as compared to the previous year.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you. A last question, you said that you are growing your market share above market levels. Your competitors are not as strong as CVC, but do you notice that in the online sales, is the online market growing, how they compare to CVC to other online sales platforms, mainly you sell tickets and packages, so what about the online growth?

A - Unidentified Speaker

Well, we don't know these figures from our competition, so it's not accurate, but what we know is that the online channel is more price sensitive. So our own channel grew 17%, but we have 40% more passengers. So the online public is very price sensitive. So the average ticket is affected, everybody is affected, online not only us. So there was a decrease in average ticket especially for airline tickets. Our packages went down 7%. Airline tickets went down even more, so the figures maybe surprising. You may have a very marked growth in passenger numbers, but with lethal significant growth in production.

Our online mix is favorable. We have many packages. So the effects of the decrease in airline decreases in prices, but if you depend on average ticket only, then of course, you lost much more than 7%. You can see the results of airlines and they have published their figures and you can see the impact they had on their revenues coming from average ticket.

Some of the online companies, they sell 80% in tickets and 70% comes from corporate sales and the corporate market is the one that suffered the most in these three or four first months of 2015. So our figures are not official, but what we know is that the revenues of those companies are allowing them to breakeven only or even having a loss.

Operator

Our next question from Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning everyone and thank you for taking my question. I would like to know more about credit demand. What's the cost of bank slips payments, slips have -- you had changes to approval rates for credit?

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

Well, good morning, Joseph. In our case, cost is stable, has been stable over the last three years, in average 4.1% as for credit granting, it improved, it was a surprise. We've been working very close with the banks since the second semester of last year. We are adding new information to our credit scoring. So in the first quarter of this year, we had a level of approval, which was above 70% as compared to 65% last year. So the proposals we've submitted from our customers were approved mainly.

Well, banks have to lend money to survive. That's what they do for their business. When credit is more complicated, they have more restrictions. So CVC's portfolio is good. We are three months in advance in terms of boardings. So we had good results improving from 65% to 70% in approvals. So I don't see many changes in this scenario in this year unless something catastrophic happens.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Our next question from Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning Falco and Fogaca. When we talked about RA, you said 71 million. What does this exactly refer to? I couldn't understand really.

A - Unidentified Speaker

Good morning. Well, actually Ernst & Young next week on 11th will finish auditing. So some figures are feasible, some are not. So 71 million is the EBITDA from 2014. So we are going to be around this figure. It's only on the 11th that we are going to know go for sure. So it will be around 71 million, so this is the figure we are sharing with the market. So auditors will have all these figures on 11th, but you can think about 71 million of EBITDA for RA. So it's a growth as compared to 2013.

Q - Tobias Stingelin {BIO 18290133 <GO>}

As for the synergies, is there anything else you can say, what have you mapped, what do you expect? Is there anything else you can tell us about the synergies? Are there restrictions for you to re-implement that or have you met everything?

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

Well, good morning Tobias. We have progressed a lot in our analysis. We have been implementing things even before we completed transactions on August 1, but we are at full speed, working with the synergies. As for hotels, which is very time consuming and hard work, we have negotiated with large corporate chains. We have over 600 hotels in our portfolio. Conditions are very favorable. We have integrated platforms and we started the pilot study to sell hotels at virtual platform than they're going to start it in early June. So we just learn to have more visibility of how this will work in the first 30 days, so thus we can know our potential better.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much.

Operator

Thank you. This is the last instruction for you to ask questions. (Operator Instructions). So if there are no more questions, we now close the Q&A session. Mr. Falco, your final considerations?

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

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So I'd like to thank you all for being with us today, taking your time to analyze the results of our company. We are here available to answer questions from our investors. We have our Investor Relations team with Fogaca [ph]. So if you have questions, just ask them send your questions to us and please go on holiday, go traveling. This is great. Your productivity will be better after your holidays and our sales will be better too. So thank you very much and enjoy your day today.

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Operator

So thank you, this concludes today's CVC's first quarter 2015 results conference call. You may disconnect your lines at this time. Have a nice day.

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