

Q3 2017 Earnings Call

Company Participants

- Luiz Eduardo Falco Pires Corrêa, Chief Executive Officer & Director
- Luiz F. Fogaça, Administrative Vice President, Chief Financial Officer & Investor Relations Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome, everyone, to CVC's Third Quarter 2017 Results Conference Call. Today with us, we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Luiz Fernando Fogaça, 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.

We'll have simultaneous webcast that may be accessed through the company's website. Slide presentation may be download 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 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 would turn the conference over to Mr. Luiz Eduardo Falco, Chief Executive Officer. Mr. Falco, you may begin your conference.

Luiz Eduardo Falco Pires Corrêa

Thank you very much. Good evening, everyone. We are pleased to begin our conference call to discuss the CVC Group results of first quarter 2017. According to today's agenda, we will cover the main events in the third quarter of 2017 then we will present the financial results, and lastly, we begin the Q&A.

So beginning, we'd like to talk about the highlights of the third quarter of 2017 starting on slide number 4. In this quarter, CVC Group bookings grew 15.7% in line with the recovery trend seen over the year. The results in the third quarter were driven by good

performance of CVC (Leisure), the corporative segment of RexturAdvance and the improvement of Submarino Viagens. In the third quarter, CVC had a cash generation of BRL 263 million and, as a consequence, net debt reduction of BRL 245 million which is now equivalent to 1.06 times EBITDA. In this quarter, we start the implementation of Agile concept in the IT area and the budget for 2018 was made in accordance with this concept.

Over the last few months, CVC hired four key executives: Human Resource Director, Carla Gama; Digital and Online Director, Maurizio de Francis; CIO, Jacques Varaschim; and Product Director, Sylvio Ferraz. CVC achieved for the eighth consecutive year the award of Marcas de Confiança (Trustworthy Brands) performed by magazine Seleções and Datafolha. The company also granted for the 70 (sic) [seventh] (03:26) consecutive year the Top of Mind 2017 awards from Folha de São Paulo as the most recognized brands in 2017 [indiscernible] (03:36).

On slide number 5, we will do an update regarding the acquisitions. The Extraordinary General Shareholders' Meeting of October 23 approved the issuance of 5.9 million CVC shares for the payment of the remaining stake of RexturAdvance with a lock-up of one-third per year. Regarding Grupo Trend, the acquisition on August 2017, CADE, the Brazilian Antitrust Authority, approved the transaction. Corporate restructuring of the group is under process and the closing of this deal is expect to be concluded by December this year.

Yesterday, the company announced the acquisition of Visual tour operator, the third largest tour operator in Brazil, with approximately BRL 400 million annual bookings. The acquisition strengths CVC presence in the independent agent channel. Afonso Gomes Louro, founder and main executive, will remain as General Managers (sic) [Manager] (04:40) and will be entitled to a four years earn-out, based on revenues and EBITDA targets.

On slide number 6, we'll talk about overall results. CVC Group booking totaled BRL 2,661 billion in the third quarter, growth of 15.7% versus third quarter 2016 performance. Year-to-date, CVC Group grew 13.9%, reaching more than BRL 7.4 billion in booking. Adjusted EBITDA grew 13.1% and adjusted earnings grew 21.1% versus third quarter 2016 pro forma results. Year-to-date adjusted EBITDA grew 13.8% and adjusted earnings grew 18.1% against 2016 in a pro forma basis.

Now, I will pass to our CFO, Luiz Fogaça, who is going to talk about the financial results in more detail. Fogaça, please.

Luiz F. Fogaça {BIO 4829908 <GO>}

Hi, everybody. On slide number 8, we look over bookings performance. CVC (Leisure) and Experimento bookings totaled BRL 1.6 billion in third quarter representing growth of 12.3% against 2016. In the first nine months of the year, the segment grew 14.6% reaching BRL 4.7 billion in bookings. These results were driven by international and cruise segments. CVC Group's bookings totaled BRL 2.6 billion growing 15.7% in the quarter and reaching BRL 7.5 billion in the first nine months of 2017, representing 13.9% growth versus 2016.

RexturAdvance bookings growth and improvement in the performance of Submarino Viagens also supported CVC Group bookings growth.

On slide number 9, we will go over bookings breakdown. The good performance in the exclusive stores channel and independent agents channel also supported bookings growth in the quarter. The online channel cvc.com present a decline in bookings as a function of the new platform, process that shall be concluded by the end of this year.

Slide number 10, we will talk about revenue. Net revenue of CVC and Experimento reached BRL 252 million in the quarter and BRL 674 million in the first nine months of the year, representing 9.2% and 8.3% growth, respectively, versus 2016. CVC and Experimento margins were 15.9% in third quarter and 15.6% in the first nine months of the year, 80 basis points and 40 basis points lower than the normalized margins in 2016 pro forma figures. The normalization refers to payments anticipation made in 2016 with better commercial terms captured in the revenue line.

Net revenue of CVC Group totaled BRL 285 million in third quarter 2017 and BRL 846 million in the first nine months, representing growth of 10% and 7.4% compared to 2016. CVC Group's margin was 12% both in the quarter and in the first nine months of the year, a drop of 60 basis points and 30 basis points, respectively, when compared to the previous year normalized margins.

Moving to slide number 11. The recurring operation expenses grew 6% in the quarter, mainly due to the increase in marketing expenses linked to bookings growth of 16%. General and administrative expenses in the quarter increased 5.2% due to the annual salary increase and expenses with M&A. The nonrecurring expenses grew BRL 8.8 million due to the new incentive plan for senior management. The long-term incentive plan for all executives is considered a recurring expense.

Moving to slide number 12. CVC Group adjusted EBITDA totaled BRL 166 million in the quarter and BRL 423 million in the first nine months, representing 13.1% and 13.8% growth versus 2016. The EBITDA margin increased from 51.6% to 52.9% (sic) [53.1%] (09:41) in the quarter. And in the nine months of this year, the margin reached 49.9% compared to 47.1% in 2016.

Moving to slide number 13, we will cover earnings details. Adjusted net earnings totaled BRL 77 million in the quarter and BRL 164 million in the year, representing growth of 21% and 18% versus the previous year. Third quarter earnings growth was driven by EBITDA improvement and stable financial expenses.

In slide number 14, we will see cash flow performance. CVC Group generated BRL 263 million, of operational cash, BRL 204 million higher than the previous year. A great cash generation in the quarter reflects the operational results and also the working capital improvement as a consequence of consumer decision to anticipate the purchase of their travel and also less anticipations made to airline companies and hotels. In the nine months of the year, the company generated BRL 170 million of cash.

Moving to slide 15, we will talk about return. The return on invested capital was 33.1% in the last 12 months ended in September 2017, 5.6 basis points better than June 2017, mainly due to working capital improvement.

Moving to slide 16, we will see net debt and financial expenses in detail. For accounting purpose, the value of BRL 190 million related to the acquisition of the remaining 31.8% stake in RexturAdvance was treated as that in the balance sheet of September. For comparison purpose and leverage analysis, this value was eliminated, once the payment in shares has already been approved in the Shareholders' Meeting last October.

Net debt on September 2017 was BRL 410 million. Taking into consideration the anticipation of receivables and acquisitions, net debt was BRL 608 million equivalent to 1.06 times EBITDA. The net financial expenses of CVC Group is slightly increased when compared to 2016, as a consequence of bank slips expenses and to bookings increase and also a higher mix in that means of payment, which was offset by the reduction of financial expenses due to lower debt costs and also the reduction in the CDI interest rates in Brazil.

We would like to thank everyone for their participation in this conference call and now we are going to start the Q&A.

Q&A

Operator

Thank you. The floor is now open for questions. I will turn over to Mr. Luiz Falco for final consideration. Mr. Falco, you may give your final considerations now.

A - Luiz Eduardo Falco Pires Corrêa

Okay. Thank you very much to join us and to spend this time with our results. It's a pleasure to be here. We'll be here together on the next quarter. Thank you very much. Have a nice evening, everyone.

Operator

Thank you. This concludes today's CVC third quarter 2017 results conference call. You may disconnect your lines at this time.

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