

## Q4 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

### Other Participants

- Melissa Kim Byun, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon. Welcome, everyone, to CVC Fourth 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](http://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 the CVC remarks, there will be a question-and-answer session. At that time, further instructions will be given.

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 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, Victoria. Good afternoon, everyone. We are pleased to begin our conference call to discuss CVC Corp results of fourth quarter 2017. Regarding today's agenda, we will

talk about the main events in the fourth quarter of 2017 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 fourth quarter 2017 on CVC Corp. Slide number 4, in this quarter, CVC Corp booking grew 12.4% with double-digit growth in all quarters of 2017 resulting in a growth of 13.5% in the year. The increase in the fourth quarter 2017 was driven by the good performance in the Leisure segment; on the Corporate segment, which grows about 17%; as well as on the Submarino Viagens, which grow more than 30%.

In the fourth quarter, all channels showed double-digit growth, highlighting the online channel that grew above 20%. In December, CVC concluded Trend's acquisition and already started to capture synergies from Trend as well as from Visual. In January, CVC implemented a new matrix structure and defined the corporate purpose and values.

Regarding business unit performance, the CVC leisure ended 2017 growing more than 13% in bookings with the same-store sale growth of 11.5% and 109 new stores opened. RexturAdvance grew 16% in 2017, totaling BRL 3.3 billion in bookings. We restructured Submarino Viagens team under Maurizio's leadership, stabilized the platform and ended 2017 with improved product mix and strong growth in bookings.

Experimento ended 2017 with booking's growth of more than 20% and EBITDA grew more than 50% after synergies.

CVC achieved for the eighth consecutive year the award Marcas de Confiança, which means Trustworthy Brands, performed by magazines Seleções and Datafolha. The company also (00:04:16) for the seventh consecutive year Top of Mind 2017 award from Folha de São Paulo as the most recognized brands in 2017. Also in November, CVC was again ranked among the 25 Most Valuable Brazilian Brands by the international brand consultancy firm Interbrand.

Slide number 5, we will present the new organization structure. We now have six business units under the CVC Corp umbrella and support areas providing service to these business units. The structure is based on the concept that those who don't work in sales, work for sales.

On slide number 6, we will present our mission of CVC Corp. This is to present the best travel experience in all moments of people's lives. If you are traveling to attend a meeting or to attend a course or your deserved vacations, CVC Corp will be there to provide the better experience in all those moments.

On slide number 7, we will show company's corporate values. Now, our six business units have a common purpose and values and (00:05:35) and recognize that, focus on customer, people, results, transparency, meritocracy and innovation.

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On slide number 8, we will talk about the main financial indicators of CVC Corp that showed growth in its main metrics. CVC Corp bookings total rise to BRL 2.76 billion in the fourth quarter 2017, growth of 12.4% versus the fourth quarter 2016 pro forma. Also in 2017, CVC grew 13.5%, reaching more than BRL 10.2 billion in bookings.

Adjusted EBITDA grew 10.9% and adjusted earnings grew 25.7% versus fourth quarter 2016 pro forma results. In 2017, adjusted EBITDA grew 12.9% and adjusted earnings grew 20.6% against 2016 pro forma results.

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

### **Luiz F. Fogaça** {BIO 4829908 <GO>}

Hi. Good evening to everybody. Starting on slide number 10, we will talk about bookings dynamics. Bookings of Leisure segment posted a 9% growth compared to fourth quarter 2016. While CVC Leisure posted 10% growth and 12.8% compared to the full year 2016 pro forma. This increase was driven by the strong growth in cruise and international segments, especially European Circuits.

Regarding the Corporate segment, bookings increased 17% in fourth quarter and 16% in the year compared to 2016. Bookings of CVC Corp reached BRL 2.8 billion in fourth quarter and BRL 10.2 billion in the year representing 12.4% growth versus fourth quarter and 13.5% compared to the 2016 pro forma figures. Submarino Viagens' improved performance also supported company's results.

Moving to slide number 11, we will cover bookings by channel. The online channel posted a rise of 20% in fourth quarter with improved performance of Submarino Viagens, good performance in the exclusive stores with 11% growth, and independent agents with 13% growth, also sustained bookings growth in the quarter.

Moving to slide number 12, we will cover net revenue. Net revenue of boardings-based business units like CVC Experimento, Trend, and Visual, totaled BRL 282 million in the quarter and BRL 956 million in the year, representing growth of 6.9% and 7.9%, when compared to 2016 respective periods. The percentage of net revenues over boardings was 14.7% in the quarter and 15.3% in the year, lower by 50 basis points in both periods, due to a greater mix in international segment.

Net revenues of bookings-based business units, such as RexturAdvance and Submarino Viagens totaled BRL 56 million in the quarter and BRL 229 million in the year, representing growth of 6.3% and 4.6% with 2016 respective periods. The percentage of net revenues over bookings was 6% in fourth quarter and 6.2% in the year. CVC Corp net revenues totaled BRL 339 million in the quarter and BRL 1.2 billion in the year, representing growth of 6.8% and 7.2% compared to 2016 figures.

The percentage of net revenues over CVC Corp bookings was 11.9% in the fourth quarter and 12% in the year, lower by 70 basis points and 60 basis points compared to the

previous year, basically due to a greater mix of international segment.

Moving to slide number 13, we will cover operational expenses detail. The recurring operation expenses grew 5.7% in the quarter, mainly due to the increase in marketing expenses that are linked to bookings growth of more than 12%. General and administrative expenses in the quarter decreased 2.8% as a result of the synergies.

The non-recurring expenses in the fourth quarter grew 26% due to the new incentive plan approved for the senior manager. The long-term incentive plan for all executives is considered as a recurring expense. In 2017 recurring operating expenses grew only 2.6% compared to 2016.

Moving to slide number 14, we will see figures of EBITDA. CVC Corp adjusted EBITDA posted BRL 171 million in the quarter and BRL 594 million in the year, representing 10.9% and 12.9% growth versus 2016 period. The EBITDA margin increased from 48.6% in the quarter and to 50.5% in 2017. In 2017 full-year period, the EBITDA margin reached 50% compared to 47.6% in 2016.

Moving now to slide number 15. Adjusted earnings totaled BRL 86 million in the quarter and BRL 251 million in the, representing growth of 25.7% and 20.6% versus fourth quarter 2016 and 2016, respectively. Fourth quarter 2017 earnings growth was driven by EBITDA improvement and a reduction in financial expenses.

Moving to slide number 16, we will see cash flow dynamics. In 2016, the company generated BRL 173 million of operational cash after CapEx. The lower cash generation in the quarter was a consequence of higher interest over capital payment compared to previous year by BRL 19 million and also by a judicial deposit of BRL 20 million related to a lawsuit filed by the company to support the mercantile nature of the stock options plan and protect the company from fines of an eventual legal notice.

Moving to page 17, we will see working capital and return over investment. The change in working capital was driven mainly by the higher interest over capital payment and the judicial deposit already mentioned. And the return on invested capital was 32.3% in the last 12 months.

Moving to slide number 18, we will see debt and financial expenses. Net debt was BRL 1.1 billion on December 2017, representing 1.76 times, (00:13:52) EBITDA and last 12 months EBITDA. The net financials expenses of CVC Corp fell by 44% due to the drop in the CDI rate and amortization related to the acquisitions, reduction of the cost as a consequence of the new debentures issued in the year and also by higher revenue derived from prepayments made to tourism service suppliers in the period. The rise in expenses related to payments to banks slips was a consequence of company's bookings growth of 12.4% and also by the greater mix of this mean of payment, which increased from 24% in fourth quarter 2016 to 32% in fourth quarter 2017.

We'd like to thank everyone for the 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. Melissa Byun from Bank of America would like to make a question.

#### Q - Melissa Kim Byun {BIO 15128570 <GO>}

Hi, Falco, Fogaça. Thank you for taking my question. Can you first provide an update on the integration process for Trend and Visual? What progress have you made so far, have you identified any new synergy opportunities as you go through the process and should we be prepared for any restructuring costs? And then my second question is just a follow-up on the big increase in terms of participation of bank slips in sales. Has there been any change in your strategy or that of your bank partners, or in the economics of those arrangements that's contributing to that increase? Thanks.

#### A - Luiz F. Fogaça {BIO 4829908 <GO>}

Hi, Melissa. In relation to the acquisitions and the synergies, we normally work on that in two stages. We have a preliminary analysis before we conclude acquisition, of course as a consequence of not having all the details prior to the closing. And after the closing on a 30 days period, we have all the details and then we are able to identify the synergies by area and also do the scheduling throughout the year.

So we have already made that for Trend and Visual. Those synergies have already been included in 2018 budget. We estimate that we will be able to capture roughly 70% of the synergies in the 2018, and in 2019, we'll be able to capture 100% of the synergies.

We don't have any future impact of restructuring in the P&L, because normally when we do the opening balance sheet, we can estimate any eventual severance payment and we do the provision in the opening balance sheet. And of course they are not material.

When you go to bank slips, we could see an increase in that means of payment. It has reduced in the past as a consequence of the economy and the insolvency. And of course in the second half of the year with the improvements in the economy and also in the perceptions of the consumer, that has started to grow. We do not have any change in terms of cost with the alternative. We did some initiatives in the Black Friday, moving from 10 to 12 installments but only for that period. So it's more a consequence of the economy as a general.

#### Q - Melissa Kim Byun {BIO 15128570 <GO>}

Great. Thank you. And just a follow-up on the synergies as you went through the 30-day processes of re-confirming those potential synergies, are you seeing any new areas that you perhaps have not discussed before with us? And is the size or the magnitude of those synergies bigger now?

**A - Luiz F. Fogaça** {BIO 4829908 <GO>}

Yes. After concluding the analysis, we - let's say that we found some new opportunities that we're not mapped and we have already started to capture those synergies and of course we will disclose that only after we capture those opportunities. But yes, at the end of the day, we are able to identify higher synergies than expected.

**Q - Melissa Kim Byun** {BIO 15128570 <GO>}

Great. Thank you.

**Operator**

I will turn over to Mr. Luiz Falco for final considerations. Mr. Falco, you may give your final considerations now.

**A - Luiz Eduardo Falco Pires Corrêa**

Okay. Thank you everybody for your presence here on this call. If you have any doubts, you have our Investor Relations people with Pedro and Henrique available anytime to you, and have a good evening, everybody. Thank you.

**Operator**

Thank you. This concludes today's CVC Fourth Quarter 2017 Results Conference Call. You may disconnect your lines at this time.

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