

Q3 2014 Earnings Call

Company Participants

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

Other Participants

- Andrea Teixeira, Analyst

Presentation

Operator

Good morning, welcome everyone to CVC's Third Quarter 2014 Results Conference Call. Today with us we have 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 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's 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 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 {BIO 17914305 <GO>}

Thank you. Good morning, everyone. I'm pleased to host the conference call to discuss the results of the third quarter. For today's agenda, we will look over the third quarter and the year-to-date 2014 results, and then we will open for Q&A.

We start with slide number three. The signs of recovery in bookings that occurred during the month of July continued during the months of August and September. Despite the FIFA World Cup finals in the first half of July, bookings increased 14% versus July 2013. Bookings in August and September grew at a higher rate than July, and in fact, represented two best months of bookings in CVC's history, resulting in 17.1% growth for the quarter as compared to the same period last year. This increase came from all channels, online, independent agent and exclusive stores. Same-store sales grew 13% in the period comparing August and September leading to an 11% same-store sales increase in the quarter.

We have opened 101 stores in the last 12 months, in line with our annual target of 100 additional stores, 22 of which were opened during the third quarter. We open stores in locations previously identified as attractive by our expansion committee and our master franchisees. We've received an award from Folha de Sao Paulo as Top of Mind in tourism segment for the fourth year in a row, increasing and enhancing even better our brand. Finally, we have worked on our roll-out of our new front-end tool, which we will apply across all sales channels.

Now we move to the slide number four, where we go deeper into the performance of the online channel. We have launched several short trip destinations at Campos do Jordao, Buzios, Guaruja, Olimpia, Angra dos Reis and Parati. Third quarter sales in this segment grew 115% year-over-year, well above the overall growth in domestic destinations. We have also enhanced our platform through the allotment of new features, based on user experience and optimization on package navigability, measures that are expected to drive package sales growth. Third quarter online bookings grew 45% year-over-year, totaling BRL67 million. It's also worth to emphasize that we doubled our conversion ratings in the third quarter, when compared with last 12 months.

Jumping to slide number five, we look over the bookings performance. Bookings increased year-over-year 17.1% recovering from [ph] 4.3% drop on the second quarter '14, related to FIFA World Cup. Despite on these non-recurrent [ph] event, year-to-date bookings growth has returned to double digits 10.5%. Regarding the online channel, we implement a series of initiatives to improve the online platform and user experience, resulting in a 45.2% increase in third quarter and 64% increase on the year-to-date 2014.

Jumping to the slide number six, we look over the performance of the offline channel. We opened 57 exclusive stores on the first months of 2014, 22 of which were opened on the third quarter. These figures leads to 101 openings in the last 12 months in line with our annual target of 100 additional stores. Same-store sales grew 11% on the third quarter and 4.9% on the nine months 2014. This regarding the effect of the World Cup bookings, same-store sales would have grown 12% from the first nine months of the year.

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Despite the stronger growth from the online channel and the opportunity to be captured on this segment, it's important to bear in mind that average ticket of offline channel is 50% higher than that of the online. As a consequence of an individual consultant sales process provided at the store. This means that for the time being all the (inaudible) they are more willing to be selling on the online and the more complex products are more willing to be selling on the offline channel. That makes the difference on the average tickets.

Jumping to slide number seven, we go through our consumed bookings. Consumed bookings were adversely impacted by the FIFA World Cup, as July boardings decreased 15% versus July 2013. And was partially offset by improving in bookings and boardings during August and September. Consumed bookings totaled 1,077 million in the third quarter, representing 1.6% increase over the third quarter of 2013. Despite of this effect, boardings grew 11.5% on the first nine months of 2014.

Now for the other results, I will pass to our CFO, Mr. Luiz Fogaca.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Thanks, good morning. On page eight, we look over net revenue. Net revenue was 177 million in third quarter and 494 million in the first nine months of 2014, representing increases of 0.4% and 8% from the respective periods in 2013.

Net revenue as a percentage of consumed bookings was 16.5% in third quarter and 15.4% in the nine months, representing decreases of 20 basis points and 50 basis points from third quarter and nine months of 2013, respectively. The decrease was mainly related to a higher percentage of international bookings, which currently offer slightly lower margins relative to the domestic segment, despite having higher average ticket prices.

Average International margins were also negatively affected by a higher proportion of sales to US theme and amusement parks, such as Disney, Sea World and Universal. That effect was mitigated by selective margin improvements in specific products during the World Cup.

On page nine, we will cover EBITDA and adjusted EBITDA. As a result of the items mentioned previously, EBITDA totaled 93.9 million in third quarter, 4.6% higher than third quarter '13. Adjusted EBITDA was 99.7 million in third quarter, an increase of 1.8% as compared to third 2013. As a percentage of net revenue, adjusted EBITDA represented 56.1%, 80 basis points increase versus third quarter '13.

EBITDA and adjusted EBITDA totaled 233.9 million and 248.9 million in nine months 2014, respectively, representing increases of 18.6% and 8.4% from 2013. As a percentage of net revenue, adjusted EBITDA reached 50.4%, 20 basis points higher than nine months of 2013.

Non-recurring expenses decreased to 5.8 million in third quarter from 8.2 million in third quarter 2013 and were related to one-time events. In third quarter '14, non-recurring

expenses were exclusively stock options and extraordinary bonuses. Non-recurring expenses in nine months 2014 totaled 15 million, a 53.7% decrease when compared with the same period of 2013.

And now moving to page 10, where you see earnings. Net income totaled 38.6 million in third quarter '14, a 2.8% growth versus third quarter '13, while adjusted net income decreased 5.3% in the same period, mainly as the consequence of a positive exchange rate variation of BRL2 million observed in third quarter 2013. Net income and adjusted net income in nine months 2014 totaled 86.2 million and 105.5 million, respectively, representing increases of 20% and 3.3% versus previous year.

Moving to page 11, where you see cash flow generation. In third quarter '14, the cash flow generated by operating activities, net of CapEx, increased from 44.8 million in third quarter '13 to 114 million in third quarter '14, driven by the improvement on working capital, mainly due to the increase of the average gap between the date of booking and date of travel. Working capital needs reduced from 36 days to 28 days in third quarter 2014.

Moving to page 12, as a result of CVC's asset-light business model, we have invested BRL15.7 million in the nine months, mainly in infrastructure, connections with suppliers and CVC website. Return on invested capital was 39.9% in the last 12 months ended September, 4.8 points higher than in the same period ended on September 2013. This growth was attributable to the growth in the operational result, reduction on property, plant and equipments along with a small increase on working capital.

Moving to page 13, we see debt and financial expenses. Net debt at September '14 and September '13 were 150.9 million and 193 million, respectively. Taking factored receivables into account, net debt was BRL230 million in September '14, and BRL392 million at September 2013. The decrease in factored receivables was related to the cessation of factoring bank slips and personal checks. Net financial expenses increased 4.4% impacted by an exchange variation gain in third quarter '13. Net financial expenses totaled BRL75 million in nine months 2014, 13.3% above that of 2013, principally as a result of; exchange variation gain observed in 2013; and a decrease in financial revenue related to lower cash balance.

Once again, thanks for attending this conference call, and we will start now the question-and-answer session.

Operator

Yeah.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Ms. Andrea Teixeira from JPMorgan would like to make a question.

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Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good afternoon there, and thank you for the call Falco, Fogaca and Hugo [ph] and the team there. I just wanted to maybe like, you had a very strong number for margins, despite in other takeaway going down, and I mean, from what I can read and correct me if I'm wrong, is mostly on the marketing expenses that you're able to control. Is that something recurring? That's my first question. And what are the initiatives that you're taking?

And then second, if you -- how are you in the process of hiring, the person who is be responsible for Brazil? Thank you.

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Good morning, Andrea. In relation to the marketing expenses, basically we have anticipated marketing knowing that will have effect during the second quarter and beginning or we expect that we will have somewhat happened in July. Fortunately, that has not the case. We have anticipated some marketing expenses. We have also, what we call shared marketing expenses with a series (inaudible), in which they reimburse CVC for promoting those destinies. And that was, of course, we try to concentrate that in third quarter knowing that will be a difficult one. We don't see that. Of course, we have always opportunities to reduce expenses and optimize, but not in the same levels that we have observed in the third quarter.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I think that would be -- the fourth quarter would be, Fogaca that fourth quarter would be also lower or you have to catch up with your -- and if possible, if you can give us like as a percentage of your boardings, how much should be the normalized marketing spend?

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Let's say that we will not over expenditure in fourth quarter, we will return to normality in terms of ratio.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. And so, use the first half as a proxy.

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

Yeah. It will be a good proxy.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, great.

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

In relation to the network [ph] or the team, we have been working on that and we expect that we will have news until the end of the year.

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Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, thank you.

Operator

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

A - Luiz Eduardo Falco {BIO 17914305 <GO>}

Okay, folks thank you very much for -- to be with us on this presentation. Once more, I would like to tell you that the team is available for any kind of questions with Fogaca, our CFO, as well as Hugo, our Investor Relations and audit team that support those guys. If you have any questions do not hesitate to be in contact with them and hopefully to see you back here on the next quarter. Thank you very much.

Operator

Thank you. This concludes today's CVC's third quarter 2013 results conference call. You may disconnect your lines at this time.

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