

Q4 2018 Earnings Call

Company Participants

- Leopoldo Saboya, Administrative Vice President, Chief Financial Officer and Investor Relations Officer
- Luiz Fernando Fogaça, Chief Executive Officer

Other Participants

- Olivia B. Petronilho, Analyst
- Ruben Couto, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome, everyone, to CVC's Fourth Quarter 2018 Results Conference Call. Today with us we have Mr. Luiz Fernando Fogaça, Chief Executive Officer; and Leopoldo Saboya, Chief Financial Officer and Investors Relations Officer (sic) [Chief Financial Officer and Investor Relations Officer] (00:00:16).

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 have simultaneous webcast that may 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 circumstance that may or may not occur. Investors should understand the 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 Fernando Fogaça, Chief Executive Officer. Mr. Fogaca, you may begin your conference.

Luiz Fernando Fogaça {BIO 4829908 <GO>}

Good afternoon, everyone. We are pleased to begin our conference call to discuss fourth quarter results. Regarding today agenda, we will cover the main events in the fourth quarter, then we will present the financial results and lastly, we'll begin the Q&A.

Let's move to page 4. In fourth quarter, Bookings grew 34% versus 2017 and 15% on a pro forma basis. Excluding Argentina business unit, Bookings growth was 17% as disclosed in the operational release. The online channel posted a strong growth of 114% in the quarter driven by the good performance of Submarino Viagens, CVC.com and Liveló.

In 2018, online channel grew 70%. CVC Corp grew 32% in net revenue compared to 2017 in the quarter and 13% on a pro forma basis. Take rate exclusion operations in Argentina was practically stable, down 10 basis points with 50 basis points decline in the Leisure or Boardings segment and an improvement of 160 basis point on corporate and online. Leopoldo will cover those effects in detail later.

Adjusted earnings grew 70% on a pro forma basis with operational cash generation of BRL 92 million, almost BRL 70 million higher than fourth quarter 2017. This is the third consecutive quarter with cash generation. Return on invested capital grew 260 basis points reaching 23%.

In January, I concluded the transition with Falco who assumed the role of Chairman of the Board. The Board of Director was renewed in the first quarter of 2018 reinforcing the company's digital and innovation skills.

We have completed two acquisitions previously announced, Esferatur which was approved with no restriction by the antitrust authority CADE in early February; and Ola Transatlántica. Evaluation of the synergies of the new businesses (00:04:44) will be finished next month.

In our digital journey, we launched the Notify to inform the sales executives of both best offers available on all CVC gateway airline connections on a real-time basis. We also launched Submarino Viagens with the airline tickets offer and we are in the final stage testing the new module of hotels for Submarino Viagens' website.

In November, CVC brand was once again ranked as one of the top 25 most valuable brands in Brazil, ranking as the 19th, and presenting the second highest growth among all others, 21% compared to the previous year.

Moving to slide 5, we hosted in February the annual sales conventions for RexturAdvance, Experimento, Trend and CVC business units, in which we presented the strategies and news for 2019. We returned from the conventions with high levels of energy in all teams and ready to achieve 2019 goals.

FINAL

Bloomberg Transcript

FINAL

Moving to page 6. In January, we held the first Google Blast Campaign, a large scale customized digital activation that takes place simultaneously on (00:06:21) multiple platforms in a short time resulting in almost 90% increase in the number of consumers who had interactions with one of our digital platforms before visiting a CVC store.

CVC.com website had its biggest or largest days of visits even comparing with the period of Black Friday during this campaign. We announced some news at the CVC sales convention this month which will be available during 2019 such as digital table for consult destinations consultant, hotel destinations, hotel rooms, tools (00:07:09), park and we also introduced the VR goggles that will be available in some of our stores that we will be helping the customer to have the experience of a destination, hotel room, cruise cabin, parks, et cetera.

Moving to slide number 7. We - last week, we finished the (00:07:39) online ticket which is now available for downloads on Google Play. And we will be officially launch in March. In second quarter, we will also launch Submarino app for iOS users. With this new app, we will have differentiated tariffs for airline tickets. We will notify promotional tariffs for the selected destinations and we will also offer filters for preferences for individual consumers. We will have hotels in third quarter and dynamic packages in fourth quarter 2019 available for all consumers.

We are also in the final stages of the test for the new experience research tool for hotels in the Submarino website that will give more additional information, map navigation, photos with improved conversion rate. We will have this available for 100% of the users in second quarter this year.

Moving to slide number 8. We will cover some of our people and culture initiatives which are also core for the company. Last December, we held CVC team building in which we cover the key events of 2018 and we also discussed the strategies for 2019. We are promoting several lectures of digitalization throughout the whole company and we are maintaining the breakfast with employees to engage in the strategy of the company and also receive their feedback.

We have just started the first MBA in company in partnership with Fundação Getulio Vargas, a very well-respected institution in Brazil with 50 employees of the company. And we are in the process of launching the second class.

Now I will pass to our CFO, Leopoldo Saboya, who is going to talk about the financial results of the company.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Fogaça, and good afternoon, everyone. So, on next slide, slide 10, we will talk about the main financial indicators of CVC Corp that once again presented double-digit growth in all its KPIs even if on a pro forma basis. It's important to mention that I will always refer to a pro forma basis comparisons and if not, I'll let you know. So, in Q4, net revenue grew 13.4%. Adjusted EBITDA and adjusted net income increased by 9.2% and

FINAL

17.5% respectively. The quarter-over-quarter growth in Q4 now on an accounting basis reached for net revenue, adjusted EBITDA and adjusted net income 32.4%, 14.9% and 14.1% respectively.

For the year 2018, the growth was on a pro forma basis. Net revenue plus 11.5%, adjusted EBITDA 13.2%, adjusted net income 28.7%, showing this incredible operational leverage starting at double-digit in net revenue and finishing in almost 30% growth in the net income.

On next slide I will talk about the Bookings dynamics in the quarter. But before that, it's important to emphasize that I'm not considering the business units in Argentina for easing our comparison for well-known Brazilian businesses. I'll just make a comment in the end how is performance going over there.

The highlight in the Bookings by channel as already mentioned by Fogaça at the beginning of this presentation is the online channel which posted significant growth in the quarter, triple digit in fact, reaching 114.5% in the quarter driven again by the good performance of both Submarino Viagens and CVC.com in the quarter.

In the year, the online channel achieved a strong growth of 70% this year, much beyond what market grew. It's important once again to point out that this growth on the online channel came with an improvement in the product mix of Submarino Viagens and continued improvement in the conversion rate in the website, reinforcing us again our speech for - to grow in the top line with generation of EBITDA and net income that happened through all the year.

The Argentina business units, due to the country's economic turmoil, showed a decrease of approximately 20% in the quarter in reais. The business units although declined in the period performed better than the Argentinian tourism market, which in the same period fell by around 40% in reais as well.

On the slide 12, where we will see that net revenue performance and the take rate variations among quarters and year. So, the net revenue based on Boardings, so CVC, Experimento, Trend and Visual reached BRL 340 million in the quarter, representing a growth of 6.4% over the same period last year. The percentage of net revenue over Boardings, our take rate was 14.1% in Q4 18 against 14.5% in Q4 2017 on a pro forma basis.

This 50 bps approximately drop is a split in 30 bps in CVC business units and 20 bps in the recent acquisitions due to some adjustments that we did in the Q4 but is related to the year based on cut-off effect and some adjustments on costs, that was necessary to be done after the acquisition of those businesses.

At CVC, that explains the 30 bps of this drop. We, among our other effects, we had also the mix effects towards more international trips and sequences (00:15:12) that have intrinsically lower take rates. But in the end, we grew our revenues significantly showed (00:15:22) an increase in our cash margin.

Bloomberg Transcript

FINAL

The net revenue based on Bookings in that sense reached BRL 94 million in the quarter, representing a growth of 67% compared to Q4 last year figures. So, those units I'm talking now about RexturAdvance and Submarino Viagens. The take rate was 7.6% in the quarter, mainly reflecting the greater weight (00:15:52) of the online that works with a higher take rate than the airline consolidator (00:16:00) business. But important to mention that in that consolidator (00:16:05) business, we worked in a pretty much in a flat take rate compared to last year and throughout 2018 quarters.

So, with that, the CVC Corp net revenue excluding the Argentinian businesses unit totaled BRL 434 million in the quarter representing a growth of 15.5%. In the year, the growth was 12.1% reaching BRL 1.5 billion in net revenues, a record for the company. As a result, CVC Corp take rate was 11.9% in Q4 representing a slightly drop of 10 bps compared to Q4, 2017 due to the combinations of the factors that I've just mentioned.

On slide 13, I will talk about the operating expenses. So, in this quarter, the recurring operating expenses grew 15.7%. For the year, this increase was 8.4%. So, in this very quarter, this higher increase was due to two main factors. One was the increasing marketing expenses in the online business division, but that grew more than 100% but the marketing expenses less than the top line. Important to mention, first of all.

And the second part of this acceleration of expenses in this quarter was due to provisions for civil contingencies and an increase in Allowance For Doubtful Accounts the so-called PDD (00:17:50) in Brazil. This is in accordance with the increase of the participation of our internal credit desk that grew the participation from 5% to 9% in the end of the year. That is the level that we are comfortable in working with and that we envision for the foreseeable future.

It is important to highlight that the delinquency rate remained pretty much stable and under control. Non-recurring items related to the ILP CEO and CFO plan grew 41.2% in Q4 basically due to the appreciation of CVC share prices and consequently the taxes on its growth. Mainly due to the capture of synergies, general and administrative expenses in Q4 decreased 3.4%. Important to mention that in the whole year this drop was 6% showing the efficiency being captured as planned.

On slide 14, I will talk about EBITDA in the case the CVC Corp. adjusted EBITDA totaled BRL 196.5 million in the quarter, representing a growth of 9.2% versus last year. In the accounting basis, the growth was 14.9%. In 2018, we reached 21.6% compared to last year in an accounting basis and 13.2% in a pro forma basis with a 70 bps expansion in EBITDA margin.

Like this thing now (00:19:48) finishing the P&L with the net income. So, for the CVC Corp (00:19:56) same quarter, net income adjusted for the new criteria adopted from non-recurring items as explained in the second quarter of 2017 totaled BRL 98.5 million in the quarter, representing a growth of 17.5% versus last year pro forma basis. Adjusted net income for the year totaled BRL 319 million, representing an increase of almost 29%.

FINAL

So, now on the last three slides, I will discuss cash flow, our working capital and the indebtedness of the company. So, regarding cash flow, in the fourth quarter, the company generated a net cash income, which is basically the accounting net income plus the noncash items of BRL 153 million, a result BRL 35 million higher than figures reported in Q4 2017.

In the year, this adjusted net cash income was BRL 583 million, representing an increase of more than BRL 160 million against 2017. The cash generation net of CapEx, another point that we've been discussing with you had a result above Q4 figures and generated BRL 51 million. This result was BRL 48 million higher than the cash generation in Q4 2017, especially due to the improvement in the working capital, which the change in working capital was BRL 30 million below last quarter figures.

So, talking now about the working capital and the return on invested capital, just to back again to the very point that we mentioned last quarter that are pretty much the same for the quarter and for the full-year that the company pretty much invested in working capital during this year as a countercyclical measure due to the more challenging year that we faced in order to keep up with the double-digit growth that we reached, and a very sound growth in net income as well.

So, as we mentioned in the third quarter conference call. The reason why we invested was as following. First of all, a natural 00:22:42 reflect of the Bookings growth itself, the effects from the 00:22:46 adequacy of collections and payments processes for the recent acquired companies and the centralizing negotiations with some airline companies that in one hand impacted the working capital.

But in the other hand those businesses units they were beneficiated by the one single condition that we now have for the group. And some other short-term and one-off effects that we had like (00:23:18) deposits related to the stock option plan for instance, and the important reduction in the share of payments in cash against instalments, the share (00:23:31) changed due to the tough conditions of the consumer that we faced. So all that together explain why we had to invest more in working capital, but this is in our system. That's the good news. That we can now - back to our cash - as the market backs to more normal situation.

The ROIC, just among other things, the improvement in working capital improved by 2.6 points, reaching 23.2% in short term. We also would like to present a new methodology for calculating the ROIC that we consider to be more accurate. In this new methodology, we adjusted the added (00:24:17) the revenue from anticipation to suppliers which is operational, in essence to the bank slips expenses that is in fact the operational expense as well. And number three the effective cash tax income rate to reflect the tax shield due to the goodwill tax amortization. With that, our new methodology, ROIC was 23% in this quarter. And we will disclose this way from now on.

So, finally on slide 18, we show that our leverage is slightly below the Q3 figures, 2.01 times net-debt-to-EBITDA ratio. And it's pretty much - and was pretty much stable

throughout the year. And even with the inclusion of the Ola Transatlántica's debt acquisition, we could maintained it in 2 times area.

So with that, I would like to thank everyone for participating in this conference call. And we are now available for the Q&A session. Thank you very much.

Q&A

Operator

Thank you. The floor is now open for questions. This is Olivia Petronilho from JPMorgan would like to make a question.

Q - Olivia B. Petronilho {BIO 19090195 <GO>}

Hi. Good afternoon, guys. Thank you for taking my follow-up question. I'd like to focus a little bit on the recent acquisitions. I know you guys are still working on assessing the potential synergies, but if you could go through a little bit of what is already reflected in the results we see. And what we should expect in terms of basically SG&A gains for the next quarter or two. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Hi. Hi, again, Olivia. Thank you for your question. So in terms of mapping synergies, we are almost there, just making some last analysis. So, we have the plan. But no synergies have been captured already, not even in the results we presented. And they will take a little some more months as to start being felt in our figures. We are pretty optimistic on those synergies both in Argentina due to our conditions that we have here in Brazil, our capacity to offer for instance hotels -Brazilian hotels, for instance, in better condition for them. And also for Esferatur the same way we did with RexturAdvance, not to mention some other optimizations in the cost. So, we (00:27:56) to start to see gains more towards second half of this year in all the recent acquisitions.

Q - Olivia B. Petronilho {BIO 19090195 <GO>}

Okay. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you.

Operator

Mr. Ruben Couto from Santander would like to make a question.

Q - Ruben Couto {BIO 20636571 <GO>}

Hi, everyone. A very quick question on your recent investments in digital capabilities to the store. Can you give us an update on how the rollout of all the tools that you are trying to

give to the salespeople at the stores, how they are behaving, how they are influencing in a positive way same-store sales growth to the stores that have already managed to run the tools for some time? Just to get a sense if we can expect some same-store sales acceleration from the digital transformation already in 2019. Or it would be something that would be seen more clearly over the next couple of years? Thank you.

A - Luiz Fernando Fogaça {BIO 4829908 <GO>}

Thank you for your question, Ruben. To be very frank to you, those kinds of enhancements that the digitalization will bring to the offline channel will be more need for long term gain. So, we don't expect a change in the needle in the short term. So, 2019, this very specific enhancements or all this applications of digital won't change the needle for our same-store sales. That's something that we are creating, paving the way for the need to long term recycling, more movement in the stores moving forward. Of course, as long as they are available in the bulk of our stores, not to mention in all of them, we may see some changes by year-end, but it will all depend on the speed of our implementations and our changes of those new features in our stores. So, as you know, we are always very conservative. We tend to work with no changes in 2019, but working for better, I'd say, results in the coming years. Thank you.

Operator

I'll turn over to Mr. Luiz Fernando Fogaça for final considerations. Mr. Fogaça, you may give your final consideration now.

A - Leopoldo Saboya {BIO 16137418 <GO>}

In fact, it's Leopoldo speaking. The final considerations for all of you is very simple though. We would like to thank you for having our conference call for results. We are very pleased to present those figures. It was a very important year for all us, not only in terms of results, but in terms of achievements in new acquisitions and all this growth in the digital areas, in the online channel and we start with a very good move for 2019 and going forward. So thank you very much. See you next call. Thank you.

Operator

Thank you. This concludes today's CVC's fourth quarter 2018 results conference call. You may disconnect your lines at this time.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of

securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript