Q1 2017 Earnings Call

Company Participants

- Luiz Eduardo Falco Pires Correa, CEO, Member of Board of Executive Officers and Director
- Luiz Fernando FogaÃ§a, CFO, Administrative VP, IR Officer and Member of Board of Executive Officers

Other Participants

- Robert Erick Ford Aguilar, MD in Equity Research

Presentation

Operator

Good morning. Welcome, everyone, to CVC's First Quarter 2017 Results Conference Call. Today with us, we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Luiz FogaÃ§a, Chief Financial Officer.

Today's live webcast and earnings release can be accessed through CVC's website at www.cvc.com.br/ir and the Engage-X platform. We would like to inform you that this event is recorded. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company website. The slide presentation may be downloaded from this website. Please feel free to click through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are based on 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 the circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Luiz Eduardo Falco, Chief Executive Officer. Mr. Falco, you may begin your conference.

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

Thank you, Markus. Good morning, to everyone. It's a great satisfaction that we begin this teleconference to discuss the First Quarter of 2017 results from the CVC Group. With regard to today's agenda, we will initially talk about the main activities developed in the First Quarter. And after, we will present the financial results. And lastly, we'll begin the Q&A section.

To start, we will begin on Slide #4. And we'll talk about the highlights of CVC Group on the First Quarter. CVC Group grew 11.9% versus last year due to performance of the leisure segment at CVC and especially due to the growth of the corporate segment at RexturAdvance. We continued with the trend of a corporate-focused service from the last -- previous quarters. The growth of booking at CVC on the First Quarter of '17 occurred mainly due to a strong same-store sales growth of 13.3% and also due to recovery in reservations on the international segment, posting a 37% growth versus previous year. On the First Quarter '17, we added 9 stores, totaling 97 openings on the last 12 months, 83 net openings.

In the regular general meeting, which occurred last April 28, the long-term incentive, LTI, was approved based on the company's stock. The plain -- the plan has objective to align interest of the company, participants and stockholders in the medium and long term. CVC (inaudible) directors as well as high-potential managers of the company are eligible.

The executive invests a portion or entire lump sum of the annual variable bonus and receive in exchange company stock with a 3-year lock-up. Among the items of the next EGM, Extraordinary General Meeting, to be called during this current month of May, the following things will come: approval of the acquisition of Trend Group; changing the numbers of members of the board; election for the vacant positions; and lastly, the approval of the new stock option plan for the CEO and CFO from the company.

On Slide 5, we will talk about the acquisitions. On May 3, '17, the company announced acquisition of 90% of Trend, which has 25 years of tradition and operates as a broker for domestic and international hotels, focused on corporate business and leisure and reached the figures in bookings of BRL 1.2 billion in 2016. This acquisition complements the company's portfolio and strengthens the leadership position on the tourism sector.

In the First Quarter '17, we merged Experimento and CVC Intercambio teams, having maintained the Experimento brand. We have also approved 2017 budget and the store expansion for Experimento network, totaling 10 new stores through this year. We have made available for our Experimento franchisee network new financing alternatives that, combined with stability of the dollar during this period, has allowed growth in bookings higher than 30% on this First Quarter.

Slide #6, we will talk about the main financial indicators of CVC Group, which showed growth on its main metrics. The group bookings totaled BRL 2.3 million -- or billion in First Quarter '17, represents growth of 11.9% versus the previous year.

In the month of March, we have historical records in booking for 3 companies for our group. CVC leisure reached BRL 554 million in bookings, surpassing the previous record of BRL 538 million, which occurred in October 2016. RexturAdvance had bookings of 2009 -- BRL 294 million of bookings. And lastly, Experimento had BRL 20 million in bookings.

EBITDA and adjusted net profit showed growth of 12% and 8.1%, respectively, when compared with last year.

Now I present to you Mr. FogaÃ§a, our CFO, who will talk about the company's financial results.

Luiz Fernando FogaÃ§a

Good morning, everybody. On Page 8, we will cover bookings. Initially, it's important to point out that we will be reporting from now on data from Experimento combined with CVC leisure. Since both (inaudible) criteria (inaudible), the combination is based on boardings.

CVC bookings, leisure and Experimento, totaled BRL 1.5 billion in First Quarter, representing a growth of 15.9% versus 2016. CVC Group bookings totaled BRL 2.3 billion in First Quarter, representing a growth of 11.9% versus 2016. The recovery of RexturAdvance and the corporate market continued to provide support for the group performance of the CVC Group.

On Page 9, we will cover the performance by channel. The growth in bookings at CVC leisure in the quarter was mainly due to the strong growth of same-store sales and the performance of the international segment. More moderate growth on the domestic segment reflected in a lower-growth independent agent channel, where the share of CVC is higher in this segment. In the last 12 months, same-store sales had a high of 6.2%, surpassing inflation, which in the same period was 4.8%. There is still a gap caused by the last two years to be accounted for. But the current trend is for recovery.

On Page 10, we'll talk about net revenues. Net revenues of CVC and Experimento were BRL 243 million in First Quarter, representing a growth of 5.9%. The percentage of net revenues over boardings were 15.1% in First Quarter '17, a drop of 10 basis points when compared to First Quarter '16 due to the greater mix of international, which was mitigated by the good performance of cruise. With the (given short-term model) that was adopted this year, the % of margin was higher than in 2016.

The net revenues of CVC Group totaled BRL 298 million in First Quarter '17, representing a growth of 4.7%. The percentage of net revenues over bookings was 12.3% in First Quarter, a drop of 200 basis points when compared to previous year due to higher mix of international and also due to the higher weight of RexturAdvance versus Submarino in the total group bookings. The margin of the first is lower than the second.

Moving to Page 11. The recurring operating expenses dropped 3.1% in First Quarter as a result of the control on expenses and synergies captured after acquisitions. Sales expenses dropped 8.2% as a result of marketing resource optimization and lower default in consumer installment payments financed through the internal credit desk, resulting from a more restrictive credit. General and administrative expenses in the quarter increased 7.2%, especially due to the annual salary increase of 8%, partially compensated by productivity improvement. The increase of nonrecurring expenses is due to M&A

expenses and hiring bonus amortization. Due to the approval of the new long-term incentive plan, we will (revisit) the adopted criteria for nonrecurring items to this point, beginning on Second Quarter '17.

Moving to Page 12. We will cover EBITDA. The adjusted EBITDA for CVC Group totaled BRL 166 million in the quarter, representing a growth of 12% versus previous year. The margin increased from 52% to 55.8% in the First Quarter '17, an increase of 360 basis points.

Moving to Page 13. The adjusted earnings of the group totaled BRL 68.5 million in the quarter, representing a growth of 8.1% versus 2016. It's important to point out that the growth of Rextur has been fully captured in EBITDA figures but only partially captured on earnings due to the stake of 51%.

The financial expenses incurred increased 5%. If we include benefits from exchange rate variations in 2016, then expenses (would then flip), which are linked to the growth in sales of 12% versus 5% on boardings, the growth was 19%.

Moving to Page 14. We will cover working capital. Working capital in the quarter was affected by 3 main factors: increase in the prepayments made to suppliers of BRL 100 million; the effect of mix between regular airline tickets and charter flights of BRL 23 million; and accounts receivable grew 19%, above the sales growth of 12% as a function of increase of average installment terms from 8.1 months to 8.4 months.

Moving to Page 15. We will cover cash flow generation. The cash flow in the period was impacted by the working capital mentioned previously. It's important to point out that due to the historical seasonality of the business, the First Quarter normally consumes cash, whereas the other quarters (we have a) strong cash generation, as it can be observed in the graph in the lower right-hand corner. If we also normalize the cash generation of First Quarter, we will be in a similar level as previous years.

Moving to Page 16, where we will talk about return. Return on investment rose (to 24.6%)in the last 12 months, lower than the last 12 months ended in 2016. The reduction is due to the increase in working capital, as commented previously. It's important to mention that prepayments made to suppliers is of financial character. Therefore, the resulting from such prepayment is not captured in operational results. If we exclude this effect from the return calculation, it would have been 27%.

Moving to Page 17, we will cover debt and financial expenses. Net debt in March was BRL 383 million. Taking to consideration the (advanced) receivables and acquisitions, net debt was BRL 869 million on March 31, representing 1.7x EBITDA of the last 12 months. Increase (inaudible) of receivables is mainly caused by higher volume of supplier prepayment. Excluding this impact, the leverage of the group would be 1.5x EBITDA. In March, the company concluded its first issuance of debentures of BRL 200 million, with maturity on March 2019, an equivalent cost of 107% of the CDI, with the objective to extend the debt profile and reduce the costs.

Once again, we would like to thank you for your participation in this teleconference. And we will begin our (question) period.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming from Mr. Robert Ford of Merrill Lynch.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

When you look at the 20.7% increase in bookings for future periods, it's a very impressive number. How much of that was the shift in calendar versus maybe an underlying increase in demand or a move by consumers to book earlier because they're a little more confident?

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

Sorry, Bob, it's very bad, the sound. Could you just help us and try to be more louder or closer to the microphone, please?

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Yes, of course. Is this any better? Falco, did this help at all? Is this better?

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

Okay.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Okay. Falco, I was asking about the increase in bookings for future periods. It was at 20.7%, right? And I was curious how much of that is the calendar, right, because of the shift in Easter, versus an underlying increase in demand or maybe a change in consumer behavior to book more in advance.

A - Luiz Fernando FogaÃ§a

Bob, the main effect here is related to the mix as international is increasing much more than domestic at this moment and the consumer buys international travel with more anticipation. We are selling for -- (into for) July high season. And so the profile of the consumer, they purchase with more anticipation. And this drives the higher growth rate of future quarters compared to the current month. And we've also seen that the previous trend that we have moved from more anticipation in 2015 and '14 to very close purchase relating to the boardings in last year, mainly due to the economical situation and also due to the promotion that the supplier, mainly the airline companies, were offering. That has likely changed also. So we are not seeing anymore the same behavior of very high growth rates for bookings, for boardings at the same month. So combining these 2 effects explains the higher growth for future boardings.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

That helps. And on the cruise business, I mean, you killed it, right? Can you talk a little bit about your cruise commitments in the last season or the current season and maybe the opportunities you perceive more broadly? In the last call, Falco referenced some opportunities with respect to charter capacity on the weekends. But it seems like that might be something that you may be able to explore more broadly, like you have with the cruise business.

A - Luiz Fernando FogaÃ§a

In the cruise business, we have ended the season. It was a very good season, where we have, in addition to the regular business model, which we sell (Costa Cruises), (inaudible), Royal Caribbean, we have chartered, as we mentioned previously, 1 ship from Pullmantur because the number of ships that we offer was reduced a lot compared to 2015. And the result of this chartered cruise was very good in terms of occupation, in terms of financial results, even considering that we have started to sell that only in the August or September because of the negotiation of the business model -- of the new business model. Right now, we are in the process of -- we have already started to sell the new season with all the sea cruise companies. And the daily sales of sea cruises are performing very well since there is only 1 ship -- 1 additional ship this year in the coast of Brazil. But of course, that helps. And we are taking advantage of that. And so we believe that could be a good product. Valter has been doing a great job in terms of increasing the offers of the itineraries, of length of the sea cruises season for the next two years. And so we are seeing that as a good product opportunity for this year.

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

On the airplane side, what happened last year is that there's another company that decreased their lift in Brazil by something close to 11%. And they just reorganized, well, their flights, normal flights. Normally, the charter flights you use on the weekends are where there is airplanes available on the overnights. And the company, they've been, most of the year, changing their network or their offered flights. And it was not very easy to capture some of the airplanes which was seated overnight because they are changing every day. Now we are not seeing anymore. The companies are pretty stable. We have this capacity very well identified. And we can start approach for this market and then start to make new charters again. And the company will be (inaudible). But (inaudible) this decrease on the offers.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

That's helpful. Do you see similar opportunities maybe with some of the hotel partners? And I know, historically, the travel demand even in the international markets has been somewhat concentrated into 5 destinations. Is there a similar opportunity maybe to channel more capacity into specific properties and drive margins that way as well?

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

Yes. Of course, we have (inaudible) position of strength. We have a much better view which kind of opportunities we can (go after). But we can see some opportunities in Caribbean. Cuba is a very important destination that we just launched, also some other opportunities in other international destinations as well as domestic destinations. We -- because we have all the channels -- all the distribution channels and all the (techniques), we can see a little bit ahead of where are the opportunities and where can we invest our effort in order to capture this extra demand. And that is exactly what we are doing on this, specifically in 2017.

Operator

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

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

Okay. Thank you, Markus. Once again, I would like to say how it is great satisfaction to have you with our call for this First Quarter. We hope to see you again on the Second Quarter.

And the company is here, with the investor relationship team, available for any kind of questions. FogaÃ§a is the leader. But we also have (inaudible) and his team. If you have any doubts, please do not hesitate to contact us. And thank you very much. Have a very nice afternoon. Bye-bye.

Operator

This concludes today's CVC's First Quarter 2017 Results Conference Call. You may disconnect your line at this time.