

## Q4 2016 Earnings Call

### Company Participants

- Luiz Eduardo Falco, CEO
- Luiz Fernando Fogaca, Administrative VP, CFO. And IR Officer

### Presentation

#### Operator

Good morning. Welcome, everyone, to CVC's Fourth Quarter of 2016 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's website, at [www.cvc.com.br/ir](http://www.cvc.com.br/ir), (an EngageX) platform.

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. (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, Gabriela. Good morning, everyone. We are pleased to begin our conference call for discussing the CVC Group results for the Fourth Quarter of 2016. Regarding today's agenda, first, we are going to cover the main events on the Fourth Quarter. Then, we will present the financial results. And lastly, we will begin the Q&A.

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To begin, we would like to talk about the highlights of the Fourth Quarter, which are stated on page four of the presentation. In the Fourth Quarter of 2016, we see Group bookings grew 8.5%, in line with the recovery trend seen over the year. The growth in the quarter was driven primarily by the strong growth of 10.7% in the same-store sales at CVC and the recovery in the corporate segment, RexturAdvance.

CVC opened 31 stores on the Fourth Quarter, increasing the total number of stores opened in the last months to 104, resulting in 91 net openings on the last year.

The Brazilian online market declined in 2016 versus 2015. Same behavior was observed in Submarino Viagens. We are taking several measures to reverse the current trend, reinforcing our IT team as well as our online team.

CVC Vacation grew 13.4% on the Fourth Quarter, presenting a consistent improvement over the year. This performance, as said before, was led by the same-store sale of 10.7% on the Fourth Quarter and a strong growth from international segment of 53.2% on the same period. (Recovery) of RexturAdvance corporate travel business also present a consistent improvement over the year, increasing the penetration in the corporate hotel segment, which bookings reached BRL22 million on the Fourth Quarter.

Going to page 5, we will talk about the acquisition update, the acquisitions that we did, the status of them. After RexturAdvance and Submarino Viagens first year of operation in the Group, we already captured BRL32 million of synergies, improving results of the CVC Group.

As already announced, CVC concluded in December the acquisition of 100% of Experimento, a company specialized in student exchange programs, a leading player in the segment. The acquisition allows CVC expansion on the student exchange program market and further strengths the Company relationship with its suppliers and distribution channels. On February, we approved the 2017 budget of Experimento. And we have already implemented a new structure that will represent a reduction of approximately 30% on the administrative headcount.

On page 6, we will talk about the results of CVC Group in 2016. Despite the challenged economic and political environment, CVC Group grew across all key metrics in 2016.

CVC Group bookings totalized BRL8.7 billion in 2016, up by 1.5% over the 2015 pro forma figures.

Adjusted EBITDA and net income grow 9.5% and 10.3%, respectively, versus 2015 pro forma results.

Now, for detailed financials, I will pass to our CFO, Luiz Fernando Fogaca, which will go deeper on the details.

**Luiz Fernando Fogaca** {BIO 18466257 <GO>}

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Good morning. On page 8, we will cover the performance of bookings of CVC and the Group.

CVC bookings totaled BRL1.5 billion in Fourth Quarter and BRL5.5 billion in 2016, a growth of 13.4% versus Fourth Quarter of 2015 and 6.5% versus 2015. As mentioned before, bookings growth was driven by the recovery of international bookings and same-store sale results.

CVC Group bookings totaled BRL2.3 billion in Fourth Quarter and BRL8.7 billion in 2016, up by 8.5% over Fourth Quarter 2015 and 1.5% over 2015 pro forma figure. Recovery of RexturAdvance corporate travel business has supported the continued improvement in CVC Group performance.

Moving to page 9, a recovery in international segment and in same-store sale growth helped the strong bookings in the Fourth Quarter. The strong growth in the exclusive stores, as well as the more moderate growth in the domestic segment, reflected in a modest growth in independent agent channel. CVC share in this channel is higher in the domestic segment.

Despite the trend observed in the nine months of 2016, Fourth Quarter online traffic -- cvc.com -- slightly recovered over Third Quarter 2016, from a 13% decline to a 3.5% decline in Fourth Quarter. Credit offered to consumers in stores continued to drive a shift from online to offline sales.

Moving now to slide 10, the recovery in the international segment helped to increase the average number of days between bookings and boardings in Fourth Quarter, improving this average by five days year over year. Improvement in international segment also led to a strong growth in bookings for boardings in future quarters.

Despite the increase in the average number of days between bookings and boardings, the impact on the working capital was negative. The increase in the international segment mainly occurred in the intermediation of regular airline tickets paid after the booking. In the international segment, the share of charter and block charter, which we pay after boarding, is less representative.

Moving to page 11, we will cover net revenue. CVC net revenue of BRL238 million grew 3.3% compared to 2015. Fourth quarter net revenue as a percentage of consumed bookings was 15.4%. And it represented a 23 basis points decline compared to 2015, driven by the increased share of international segment in the quarter. In 2016, the margin was 30 basis points higher than 2015, driven by the increased share of domestic in the year.

During the year of 2016, we presented the percentage of net revenue over bookings for CVC Group. After a detailed analysis of the topic, we concluded that technically it would be more adequate to calculate the percentage of revenue over the recognition basis, which in CVC is based on boardings, while in RexturAdvance and Submarino Viagens it is based on bookings. From that moment on, we are adopting this criteria.

CVC Group net revenue totaled BRL292 million in Fourth Quarter, growing 3.1% versus 2015. CVC Group net revenue was 12.6% in Fourth Quarter, stable versus Fourth Quarter 2015.

CVC Group margin in 2016 was 12.5%, 50 basis points higher than the net revenue in 2015 due to the increased share of domestic segment in this period.

Moving to slide 12, over expenses. CVC Group recurring operational expenses increased only 1.6% in the quarter and declined 0.9% in 2016, despite the inflation in the period, due to the expense control and synergies captured from acquisitions.

General and administrative expenses increased 8.9% in Fourth Quarter due to the collective bargaining agreement of 8% concluded in October, the new sales structure in Rio de Janeiro replacing the master franchisee structure. And RexturAdvance bonus due to the strong results in 2016.

Selling expenses decreased 10.9% in Fourth Quarter driven by the optimization of marketing expenditures and lower insolvency rates among the consumers offered financing through CVC due to a more restrictive credit policy implemented in mid 2016.

In page 13, we will cover EBITDA. CVC Group adjusted EBITDA totaled BRL155 million in Fourth Quarter and BRL526 million in 2016, representing a growth of 5.1% in the quarter and 9.5% in the year. EBITDA margin improving from 52% in Fourth Quarter to 53.1%. And from 46.6% in 2015 to 49.5% in 2016.

Nonrecurring expenses in Fourth Quarter included stock options and extraordinary bonuses totaling BRL13.9 million. It's important to mention that the impact from the approval of 6th plan and the revision of plans 4 and 5 options, which is related to restatement and adjustment of dividends, approved in the extraordinary shareholders meeting in October, had an impact of BRL8.4 million in the quarter.

Moving to page 14, CVC Group adjusted net income grew 1.8% in the quarter, lower than the EBITDA growth observed in the period. RexturAdvance growth is fully reflected in the EBITDA of the Group but only partially captured in the earnings, at 51%. Submarino Viagens decreased results in Fourth Quarter compared to 2015.

Rio de Janeiro stores are being considered as a non-recurring item, as we will resell these stores in the First Quarter; 15 stores have already been resold as of today. The loss reported in the period results from the difference between bookings and boardings. We recognize sale expenses during the month, while the commission paid to the franchisee is recognized (inaudible).

Moving to page 15, CVC generated operating cash flow of BRL40.8 million in the quarter and BRL220 million in the year.

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In Fourth Quarter, CVC cash flow was negatively impacted by BRL54.8 million increase in working capital due to the rise in regular airline ticket bookings. That type of bookings, payments are made after sales; while in block and charter flights, payments are made after boarding. Reserves of regular airline tickets increased 44% in Fourth Quarter, while block charter and charter flights bookings fell 8% in the same period.

CVC Group invested BRL9.7 million in Fourth Quarter and BRL55.4 million in the year. We also invested BRL12 million in the acquisition of the stores of Rio de Janeiro.

Moving to page 13 (sic; see slide 16, "16"), the return on invested capital in the last 12 months was 34.6%, 5.3 points lower than 2015 due to higher working capital needs, as previously mentioned. And the end of the goodwill arising from the acquisition of Carlyle in 2009.

CVC dividend policy is 50% payout, considering that the Company has no other capital need to develop its business or strategic projects. Given there are some M&A opportunities under evaluation, the Company Board and the administration proposed the payment of a minimum dividend of 25% of net income, which corresponds to approximately BRL44 million, including BRL22 million of interest on equity. If the M&A alternatives are not carried out in 2017, the management will propose the payment of additional dividends.

Moving to page 17, net debt as of December 2016 was BRL459 million, including accounts payable to the sellers of RexturAdvance, Submarino Viagens. And Viatrix. Including factor receivables, net debt was BRL597 million, representing 1.2-times the EBITDA last 12 months.

Financial expenses increased 6.2% in Fourth Quarter and 6.6% in the year due to higher indebtedness as a result of higher working capital needs.

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

## Questions And Answers

### Operator

(Operator Instructions)

I'll 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. Thank you, Gabriela. And thank you for everybody which could join us on this call for results. We would like to say that we believe we have delivered good results for the

environment that we face here on the Brazilian industry. We see 2017 as a challenge environment, as well. But at least people are more willing to take vacations and we have seen the start of the year with much more humor for the consumer, which we will need to work all the year to confirm that.

And if you have any doubts, please do not hesitate to be in contact with our industry relationship team which is here to serve all our investors. Thank you very much. And see you on the next call.

## Operator

Thank you. This concludes today's CVC's Fourth Quarter of 2016 results conference call. You may disconnect your lines at this time.

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