

Y 2013 Earnings Call

Company Participants

- Luiz Eduardo Falco Pires Correa, Chief Executive Officer
- Luiz Fernando Fogaca, Administrative Vice President, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Robert Ford, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon. Welcome everyone to CVC's 2013 Results Conference Call. Today with us we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Luiz Fernando Fogaca, Administrative Vice President, Chief Financial Officer and Investor Relations 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 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 will turn the conference over to Mr. Luiz Eduardo Falco, Chief Executive Officer. Mr. Luiz Eduardo, you may begin your conference.

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

Okay, thank you. Good morning everyone from United States and good afternoon for the people which are in Europe. I'm pleased to host the first conference call of CVC as a booking company.

The idea held in December 2013 came to a proper successful history of pioneering, as well as entrepreneurship, that has been built in for more than 41 years. We were one of the first two [ph] operators to offer travel package and charter flight, as well as to open stores in shopping malls, serving all social class, but mainly the demands for the emerging middle class in Brazil. For today's agenda, we will start talking about fourth quarter, as well as 2013 results; and then we will open for questions.

We start on page number 3, slide number 3, which will present the main highlights of 2013. Building in 2013, we carry out a series of initiatives aiming to increase [ph] profitability and competitiveness, as well as the profitability of the company. One of the first measures that the new management team which joined the company in March 2013, it was return to the successful with the strategy about -- on the 41 years of CVC history. We have returned the focus to our day by day operations, tracking profitability and competitiveness by destiny and region.

We have also invested now in retail marketing strategy, offering a broad portfolio at successful price on a daily base. With the new franchise -- a master franchise agreement in place, we accelerate our stores commercial plan, opened 62 new stores in 2013, 44 of them on the first quarter.

We continue to invest our long-term relationship with our suppliers, gaining access to additional exclusive products and unique commercial arrangements such as new agreements with American Airlines and Copa Airlines and we have also strengthened even more our close relationships with other carriers like Gol, Tam and Azul. We have also new deals with hotel, for example, a few of them, Costa do Sauipe, Iberostar, Melia Group and Grand Paladium Hotels.

As a consequence of the actions mentioned, bookings have grown in a strong pace from the second quarter up to the fourth quarter of 2013, with one increase of 20% in such periods compared with 2012, and posting an increase of 13.5% in 2013, offset the negative first quarter on that year. That trend can be observed in the bookings on the EBITDA and also on the earnings results.

We have ended the fourth quarter 2013 with double-digit growth rates in all key metrics of the business in line with our expectations for the fourth [ph] quarter and also for the full year 2013.

Last Monday we disclosed to the market sales figure for January 2014, representing 20% increase over January 2013, and roughly doubling the online sales one year compared to the other. Also, we passed the milestones of 800 exclusive stores from CVC which was a very good result for January.

FINAL

On slide number 4, we demonstrate that we have also focused on new initiatives to foster our competitiveness then improve our results. First, we have enhanced dollar [ph] online channel. In May 2013, we launched the new online platform with significant improvements in usability. We also increased the portfolio improvements in improving interface with our supply business. Additionally, we expand our call centers to support the expressive growth rates observed on the online channel. As a consequence, sales more than doubling for the first to the fourth quarter of 2013 and posted 61.5% increase in bookings in the fourth quarter versus the previous year.

Furthermore, we have been able to anticipate customer demand through the offering of travel package with more anticipation, expanding the conditions and profitability with our supplies. This strategy enabled us to capture additional customers, as well as to allow us to improve our working capital dynamic. Average working capital reduced about 10%, growing for 29 days in 2012 to 27 days in 2013. We have focused on increasing the productivity in our stores, tracking conversion rates by destiny as well as region, which helped us to increase our same-store sales around 12% both in the fourth quarter as well as on the year 2013.

We have also prioritized our IT initiatives to support sales, implementing a new front-end, which will reduce the average time to complete sales, improving customer experience in the store and definitely helping to improve even more the same-store sales in the future months.

Now, I will give the word from the presentation to Mr. Fogaca, our CFO.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good morning. We can move to page 5, where we can see bookings increased significantly in the fourth quarter 16.6% versus previous year and 13.5% in 2013, which is in line with the company's CAGR of 14% from 2008 to 2012.

Online sales, as Falco have already mentioned, increased significantly in fourth quarter, 61.5% to R\$55 million, strengthening the importance of the channel and our long-term strategy.

Page 6, we can see the key metrics of (inaudible) channel. First of all, we have benefit from the new agreement we signed it with franchisees and master franchisees, which states clearly roles and responsibilities for both parties. With 10-year agreements plays an important role in our store expansion plan, allowing both parties to continue investing in the market for the long term.

In 2013, we have opened 62 stores with our franchisees, 44 of them in the fourth quarter, showing that we have returned to a very strong path. As clearly mentioned, we have also focused on increasing productivity in the existing stores, which helped us to grow same-store sales in 12.3% in fourth quarter and 11.8% in the year.

FINAL

On page 7, we have the performance of margins. Consolidated bookings totaled R\$1.2 billion in the fourth quarter and R\$4.1 billion in 2013, representing a 12.9% and 5% increase over fourth quarter and 2012, respectively.

Due to the lag between bookings and when travel takes place, consumed bookings only partially captured the increase in bookings during the year. For instance, YoY [ph] bookings increased 13.5% in 2013, margins grew 5.5% in the same period.

Over time, the growth rates of bookings and margins tend to converge. For example, in second quarter 2013 bookings and consumed bookings grew 25% and 5%, respectively; YoY grew 16.6% and 12.9%, respectively in the fourth quarter.

We have noticed an increase in the lag between bookings and margins, which is related to the company's strategies of stimulating our clients to purchase our products in advance, which I will see this need to capture additional customers, benefits our working capital and gives more visibility into future performance.

In page 8, we have the data regarding net revenue, which is a proxy of our margin. Net revenue was R\$183 million in the fourth quarter and 641 million in the full year, representing an increase of 14.9% and 2.9%, respectively, over the previous year.

Net revenue as a percentage of consumed bookings was 15.5% in fourth quarter, an increase of 0.3 points over the previous year, resulting from our better yield management, which is in line with our expectations.

In 2013, net revenue margin was 15.8% in the year, slightly lower than previous year, mainly due to higher discounts weighted in first quarter 2013, which returned to normality in the second quarter.

If we move to page 9, we can observe EBITDA and adjusted EBITDA figures. EBITDA increased significantly both in fourth quarter and in 2013 versus previous year, due to the reduction of non-recurring expenses in 2013. In 2012, we had the recognition of the earn-out and the purchase of (inaudible), which was treated as a one-time indemnification.

As we have anticipated to the market, non-recurring items are limited now to stock options which is created only once for each executive as holiday [ph] bonus components. And amortization of holiday bonus already paid in 2013. Adjusted EBITDA by non-recurring items was 99.6 in fourth quarter, 16.5% higher than the previous year. EBITDA and adjusted EBITDA totaled 289 million and 329.2 in 2013, which is in line with our expectations.

If we move to page 10, we have earnings results. 2012 net income was also affected by non-recurring items such as stock options, earn-out provision and online indemnification. As a consequence, 2013 results have improved significantly. Net income totaled 39.9 million in the quarter and R\$111 million in the year, representing an increase of R\$98 million and R\$92 million, respectively, over the same period of 2012. Adjusted net income totaled

41.1 [ph] million in fourth quarter and R\$151 million in the full year, representing an increase of 32.2% and 5.3%, respectively, over 2012.

On page 11, we can see cash flow generation. Operational cash flow after working capital and CapEx excluding all the franchisee contract payments one-time events reached R\$103 million in fourth quarter and R\$174 million in the year, representing an increase of 98% and 42%, respectively, over 2012.

Increase in the cash flow was driven mainly by the growth in net income and also by the improvement on the working capital. As a consequence of the increasing of the average time between the sales and the margin, which is in line with company's strategy.

On page 12, we can see CapEx and the return on investment. (inaudible) implying that there are little investments in assets such as quite fit in hotels, more significant investments in fixed assets.

Our investments are mainly related to IT systems in order to support our sales. Among such initiatives or investments, we can highlight the implementation of the new web platform launched in May 2013 and the new front-end platform are user-friendly too, that will reduce the average time to complete sales and will also allow the consumer to access all the alternatives with much more friendly tool.

Investments totaled 38.9 million in 2012 and 35.2 million in 2013, representing respectively 1% and 0.8% of the bookings. As a consequence of having strong margins and being an asset light company, our invested capital -- return on invested capital reached 40.7% in 2013, the 2.4 points above the previous year caused primarily by the reduction of the invested capital especially non-recurring expenses.

On page 13, you can see debt profile and financial expenses. Net debt in December 2013 was R\$199 million versus a net cash of 3.9 million in 2012. The increase of net debt is due to the stoppage of factored receivables of bank slips and checks implemented in the second quarter of 2013, in line with the company strategy.

For management purpose analysis, CVC's net debt, factored receivables to the accounts receivable and consider the same amount of a debt to corporate [ph] capital -- working capital needs. The balance during December 2013 and in 2012 of the factored receivables were R\$122 million and R\$428 million, respectively. Taking such effect into account, net debt would be R\$321 million in 2013, compared to R\$424 million in 2012.

The decrease in factored receivables is related to the cessation of factoring bank slips and checks. Currently, we anticipate to only credit cards receivables at lower rates and shorter periods when cash is needed. Financial expenses in both quarter and the year have dropped as a consequence of the earn-out monetary restatement recognition in 2012. And as a results of the change in the factoring receivables implemented on second quarter 2013. Interest expenses on the debt with our founding shareholder has also decreased from 21.7 million to 16.4, caused by the payment of the principal amount.

So once again, we would like to thank you for the interest in the company. And we will open for questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is from Bob Ford with Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Hey, congratulations on the quarter and good day everybody. I was wondering if you could please elaborate on the January bookings with respect to the mix in terms of what's happening with those order lead times on the bookings and maybe your average prices and margins on business coming into 2014?

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

Hi, Robert. Good morning. If we look at January bookings, we have increased in total 20%, and we have increased very similar in national and international segments by 22%. We have, I'd say, a negative impact in the sea cruise business because the operators have reduced the number of ships that are operating in the Brazilian coast in 2013 and beginning of 2014.

In terms of margins, we are maintaining margins very stable in comparison to what we have presented in the fourth quarter. Of course, in the first quarter we have a higher mix of sea cruise, which has lower margin that will affect the total margin. But when we compare the same product like national products or international products, we are maintaining stable margin.

Q - Robert Ford {BIO 1499021 <GO>}

And with respect to lead times Fogaca, mentioned about -- for some time now, looking on creating greater visibility and then working capital benefits for the trades, how much those lead times have improved versus last year?

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

We have seasonality when we compare quarter-by-quarter, for instance in the first quarter we have shorter period in between sales and margins, because we are selling to the peak season which is end of January and February. But if we compare the same quarter with the previous year, for instance, last quarter, we have increased the average time between sales and margins by (inaudible).

Q - Robert Ford {BIO 1499021 <GO>}

Okay. It's great. And then, as you wrap the end of the franchise negotiation into management change which occurred after the first quarter and you begin to face more

FINAL

Bloomberg Transcript

difficult comparisons. What kind of expectations do you have for bookings growth?

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

If you look back, we can see that the company has been able to increase of I think annual CAGR of 14%, which was almost the same that we have posted in 2013. We believe the company will continue to present the same levels of growth rates that we presented in the past.

Q - Robert Ford {BIO 1499021 <GO>}

All right. That would be phenomenal. And then when you think about the Copa, I mean, I understand that some of the flights (inaudible) yet to be defined by or approved, can you talk about any possible points or products that you might be able to launch in time for the quarter?

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

Hi, Bob. This is Falco speaking. This year we have worked up in Brazil, as you mentioned, and everybody knows. The company has been in six World Cups before and this is number seven, of course is a little bit different, because it is in Brazil, but we know very well that (inaudible) the World Cups. What we saw is a lot of airlines and hotels not in the availability for the season for the rooms, waiting for, let's say, how would be the arrangements of the games, which was done on last December.

Companies are already went to the -- airlines already went to the iMac [ph] and also for -- asked for extra flights, 1.2000 extra flights and the approval from iMac company on January 15. And what we're seeing now is all the seats and all the hotels starting to grow from the system available for to buy.

In terms of vacation, which is our strategy; if you look at the main destination, Northeast of the country, the cut will not be there after the first phase or the final that will be on the south. And if you also look forward things, the site will stay, which means the team in the firms and all the movements, none of the teams -- the site that is on the Northeast, which in other words means that all the Northeast will be pretty much open for vacations and we will see a very -- a behavior very close to what we have seen on the last crux. People we have want to see the football matches, but they can see on the vacations with us, it doesn't matter where they're looking for. And we have seen already the sales start to come to the normality.

In terms of package for the matches, we have the tickets, the tickets are being sending by FIFA only, they are the one which held the tickets. Of course, they have made a lot of packages with arrangements from hotels and airlines for the match, but they need to kept the tickets by them. And we have hope to make a little sales on these, but we don't think we will be very strong.

Sorry, only proof in our eyes, the hotels which are, let's say, loaded, waiting for this time have to give back the launch to the market to be spending on the normal package.

Q - Robert Ford {BIO 1499021 <GO>}

Okay, great. And then lastly, Falco, you mentioned in your opening comments, how you are tracking conversion for now that you are driving greater sales. Can you talk a little bit about what you're doing specifically to track and improve conversions and what opportunities you have to further improve conversions?

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

Basically, what we see in a daily basis, we see every region and every destination, how is the speed of the sales and how is our product competitiveness against the market and we try to make this to handle these conditions against our margins. And when we feel that there are opportunities to increase margins, we are doing out with management. When we see that want to improve our figures on sales, we are improving our communications and that's basically how we handle this situation. And as a retail in a daily basis, destination and region.

Q - Robert Ford {BIO 1499021 <GO>}

Great. Thank you very much.

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

Also I want to tell you about that we follow our quotations and we know exactly what rate of quotations are being -- are finishing sales and then we can see to gap how we can handle this gap to push more of the sales.

Q - Robert Ford {BIO 1499021 <GO>}

Okay, that's great. That's very helpful. Thanks again.

Operator

Our next question is from Andrea Teixeira with JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning everyone, and good day for some of you. And just wanted to follow-up on the question, thank you for taking that question offering the English call despite the Portuguese one. But just to make sure that we understand the whole dynamics and as the sales are moving, a lot of moving parts here for the World Cup. But is that kind of change your ability to the charter flights, because I know as you mentioned Falco that some of these flights were designed recently by iMac and approved by iMac. But are you able to basically offer the same thing to book the order, as you normally do. And the question also, since you had a strong start of the year in January, are you seeing -- obviously we just started February, but do you see people like now something into this World Cup, so obviously you are creating or that's too early to kind of assess? Thank you.

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

FINAL

Hi, Andrea. We have the charter flights, yes, we have the same capability to shorter the airplanes. You need to understand that this charter mainly taking in off peak hours, which will also occur during the game style.

Regarding the behavior of the people, we are still a little bit early, but we see a lot of people which like very much to stay close to the games, but we also see a lot of people which want to stay very far from the games and very far from the confusion.

For these people which wants to stay away from the confusion, they are just waiting for, let's say, accessible prices, which perhaps will happen now, because of our ability going to the business.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, great. Thank you very much.

Operator

Our next question is from Morris Sarah [ph] with Morgan Stanley. Go ahead.

Q - Unidentified Participant

Hi, thanks for taking the question. I just -- let me just ask the question on the World Cup and then something else. On the World Cup, you talked to us a lot, I'm just trying to understand unbalance based on what you know now, if you're forecasting the sort of 13%, 14% growth for the year, is the World Cup got to help you, you're going to go stronger during that period, or because of lack of availability will it be weaker and you will pick up more in the second half of the year?

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

That's very tough to forecast, but if you want, I guess, I think during the World Cup, the growth will be a little lower for a lot of reasons on the sales strength, because on the days where you have the matches are holidays. And if it's holidays, you don't have the store open. If the stores are not open, you don't have the sales, as simple as this, it's only a kind of extra holiday.

But we don't think we will jeopardize in a yearly base our growth, definitely on the holidays of the World Cup, we can have a lower rate of growth in terms of sales. We don't think we will get that strong team on the boardings, that is too early to give a precise figure.

Q - Unidentified Participant

I'm sorry, but on the boardings, I can understand how they're going to be disrupted if you got store closures and things, but the bookings will be disrupted, but the boardings won't be, right? And that's what matters for your revenue, right?

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

Bloomberg Transcript

FINAL

Yeah. Just (inaudible). For instance, in the second quarter for results purpose which is based on boardings, even though we have June as the part of the World Cup, it will be a small part in terms of the quarter. And we have -- in April and May we have two good holidays in comparison to the previous year. So, for margin purpose for second quarter, we would not be affected.

If you look of third quarter, in it you have the boardings of July, that is what Falco mentioned that margins of July will be increasing not in line with the historical levels and, of course, affected lightly in the third quarter by itself, but not for you.

Q - Unidentified Participant

Okay. And then last year, as you mentioned on the call or the comments rather, you opened a lot of your stores in the fourth quarter of the year. This year, I think you're targeting about 100 store openings. Can you give us a sense of how that will progress over the years, should it be more evenly spaced out over the course of the year or should it be back-end loaded again?

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

Basically, on the last year when I joined the company, the opening store process was a hit. They are not opened stores for the year. We start to accelerate the process and the consequence is that we would be in real speed only on the fourth quarter where we opened 44 stores. This year, of course, we are in our cruise flight, we are trying to anticipate the store opening and we have our maths this year in our daily. Basically we want to open as soon as possible. Obviously, we need to expect marketing conditions and around the stores. But if we can open as soon as we can, we can capture more sales during the year itself.

Q - Unidentified Participant

Okay. And I guess for last question, obviously the market is worried about sort of the economy in Brazil and the outlook for the consumer, I mean, you mentioned that consumers are booking with a longer-term duration, are you seeing any changes either in terms of consumer behavior or in terms of the competitive market out there? I'm just interested in your observations.

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

So far, we haven't noticed anything which can -- take in any consideration. As you know, Brazil, we gave 30 days of vacation every year, we have the same trend in 2014, people start to have them and people are buying normally here. There are some things in terms of consumer in Brazil that we have seen in other industries. But it's not affecting our industry yet. As we reported January -- over January last year, we increased 20% of sales, which means that they are on board, they are getting their vacations. So far, there is not even a special thing that we can point and see any difference on the behavior.

Q - Unidentified Participant

Sure. Thank you very much. Appreciate it.

Operator

(Operator Instructions) Showing no further questions in our queue. I'll turn over to Mr. Luiz Eduardo for final considerations. Mr. Luiz Eduardo, you may begin your final considerations.

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

Okay. Once more, thank you everybody to support us and to listen the company results. We are very glad to keep running this company as a team. We are very focused on giving results back to the markets and to all shareholders. We are implementing a lot of notifications which will keep the forecast of the company in line with our expertise and we hope to deliver good results on the near future. We also want to talk to you that we have our team here to support all the investments and other the questions. Myself, Mr. Fogaca and also Mr. (inaudible), if you have any questions, please do not hesitate to contact to us doing all your questions.

Thank you very much. Have a nice morning for the American guys or nice evening for the European guys. Thank you.

Operator

Thank you. This concludes today's CVC's 2013 Results Conference Call. You may now 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.