

Q2 2016 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
- Unidentified Speaker

Other Participants

- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Joel Oliveira, Analyst
- Thiago Macruz, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the CVC's Second Quarter 2016 Results Conference Call. Today with us we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Mr. 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 mode only during the Company's presentation.

This is been prepared in reals and were prepared according to practices adopted in Brazil. According to (inaudible) Accounting Committee. Before starting, we would like to mention that forward-looking statements are based on the beliefs and assumptions of CVC management and on the 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 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, from CVC who will start the presentation. Mr. Falco, you may continue.

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

Okay, thank you. Good afternoon, everyone. It's a pleasure to start the earnings release conference to discuss the results of the second quarter of 2016. With regard to today's agenda we'll initially talk about the main actions developed in the second quarter and then will present the financial results and finally, we'll start the question and answer section. To start, I would like to talk about the highlights of the second quarter on slide four. Amidst a challenging macroeconomic environment, CVC accelerated its growth in bookings with a 6.6% growth in the second quarter compared to 1.7% of growth in the first quarter, mainly driven by the growth in the independent agents channel and the recovery of international segment due to the recent appreciation of the real. The Group CVC had a double digit growth in the lines of adjusted EBITDA and adjusted net income for 2016, the second quarter of 2016 when compared to the second quarter of 2015.

In the second quarter, we also opened 20 stores, which resulted in a 107 new stores in the last 12 months in line with our purpose to open 100 stores in 2016.

In June, 2016, we launched a new platform of Submarino Viagens, which had a negative impact on reserves on bookings of 2Q '16 due to the problems of short-term related to any rollout, which is normal. The new platform will increase the portfolio hotels and improve competitiveness of products and the conversion rate of Submarino and we expect such confirmed bookings of Submarino to go back, to grow again in the third quarter 2016.

The sales of corporate hotels of RexturAdvance continue with the good performance have grown 50% in second quarter, 2016 when compared to the previous quarter.

There's several initiatives implemented in 2015 to capture new revenue streams, such as insurance, attraction tickets, car rental and city tours continue to present a double-digit growth, resulting in a growth of 23% in the second quarter of 2016 when compared to the same quarter in 2015. Such complementary products reinforce the positioning of CVC as the full service provider in the tourism segment.

In June 2016 we launched the partnership with Livelo, a joint venture that unified the loyalty programs of Bradesco and Banco do Brasil. CVC will be the exclusive travel agent for sales at Livelo website when our portfolio online will be available for customers to redeem their points.

And to finalize our new news, CVC received from IR Magazine Awards Brazil 2016 in the category of best performance in a year of crisis midcap, which is very important to us with the -- as we started working in this market three years ago.

Now on slide number five, let's talk about the results of CVC in the second quarter. So again, despite the challenging environment, CVC had a growth in all financial metrics, both in the second quarter of 2016 as well as in the first half of this year. With the highlight for the growth of 7.5% in the adjusted EBITDA in the first half of 2016 and 9.5% in the adjusted net income in the second quarter of 2016.

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Now moving on to page four, let's talk -- over to slide six, let's talk about the CVC Group result. Despite the declining bookings, the Group CVC presented a significant growth in the main financial metrics with the highlight of a 4.8 growth in net revenue and 13.6% growth in adjusted EBITDA and 22.6% in adjusted net income in the second quarter of 2016 when compared to the second quarter of 2015 pro forma, on a pro forma basis.

On slide seven, let's talk about the performance of the online channel. As already mentioned in June, 2016 we had launched the new platform of Submarino Viagens allowing for the full access of Submarino to the inventory of CVC because previously Submarino did not have access to that, and now it has. And that improves the competitiveness and performance of products.

We have also implemented new features to increase the conversion rate and the stability of the platform and we also reviewed marketing strategies to focus on more profitable products.

Now I turn the floor to our CFO, Luiz Fogaca who will talk about the financial results of the Company.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good afternoon, ladies and gentlemen. Now, moving onto the following slide, let's talk about the bookings of the period. The bookings of CVC totaled 1.3 million or billion in the second quarter -- 2.6 billion in the first half of 2016 with a growth of 6.6% compared to the second quarter 2015 due to which the Company had grown by 13% when compared to the same period of the previous year. And the growth of revenue -- bookings in the second quarter was mainly driven by the strong growth in revenues from bookings and the independent channel agents with a growth of 15% in second quarter 2016 and by the recent appreciation of the real, which favored growth of international segment, which started to grow again.

Bookings in the CVC Group totaled 2.1 billion in the second quarter and 4.2 billion in the first half of 2016 with drops of 0.9% when compared to the second quarter 2015 compared to a drop of almost 4% in the first quarter of 2016.

The corporate segment remains as the most affected by the macroeconomic environment with a negative impact on RexturAdvance sales. But we still are increasing the market share.

On the following page, number 10, let's talk about the performance of our sales channels. The strong growth of bookings in the independent agents channel reinforced the resilience and credibility of CVC in a challenging macroeconomic environment. The online channel has been suffering more than the offline channel in 2016, not only within the CVC Group, but in the industry as a whole.

Online traffic has lowered considerably amidst the recession while available consumer financing and stores has helped offline performance.

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Bookings in the second quarter 2016 for boardings in the same quarter presented a strong growth of 14% while bookings for boardings in the next quarters increased more slowly. We continue with a strong growth process and has opened 20 stores in the second quarter of 2016, which corresponds to 107 net openings in the last 12 months.

And we ended the quarter with well, a 1,041 exclusive stores. Page 11, board -- consumed boarding grew by 2.4% in the second quarter when compared to the second quarter of 2015. In which boardings accounted for a 12% growth when compared to the same period of the last year and remained flat year-to-date in 2016 after a drop of 1.5% in the first quarter 2016.

Net revenue CVC amounted to 158 million in second quarter accounting for a growth of 6.2% when compared to the same period over last year.

Percentage of net revenue over reserve of bookings was 16.5% on the second quarter. The net revenue of CVC Group totaled 215 million with a growth of approximately 5%. And percentage of net revenue of the Group improved by 55 base points in the second quarter.

Now moving on to page 12, let's talk about expenses. Operating expenses, recurring operating expenses increased 4.2% in the second quarter despite the double-digit growth of inflation at the same period given the tight expense control implemented by the Company.

General and administrative expenses remained flat against 2015 nominally while selling expenses increased almost 10% as a result of the higher allowance for doubtful accounts.

Since June 2016 we have reviewed and implemented a more restrictive credit policy given the current market situation.

Furthermore, recurring operating expenses grew only by 1% the first half of the year as a consequence of optimization of marketing resources, headcount reduction in some areas, given the synergies implemented after the acquisition of the two companies. The non-recurring expenses declined to 4.2 million very close to last year. And are mainly related to the stock-based compensation program and extraordinary bonuses, given the bonuses of some executives hired recently.

Now moving on to the next page, number 13. We'll talk about the EBITDA. While continuing on the page 12, operating expenses of the Group remained stable in the second quarter when compared to second quarter 2015 performance as a consequence of tight expenses and synergies realized.

Now on slide 13. The growth of EBITDA -- adjusted EBITDA was 8.2% in the second quarter driven by an improvement in net revenue margin. The adjusted EBITDA of the

Group totaled 81 million in the second quarter and 229 million in the first half of the year with a growth of 13% -- 13.6% and 11.8% for the group CVC pro forma.

Now moving on to page 14. Talk about the net income. The adjusted net income grew by 9.5% in the second quarter, while the adjusted net income of the Group grew 22.6% mainly due to the improvement in RexturAdvance results. The adjusted net income in the second quarter as a percentage of net revenue presented an improvement of 40 basis points and 55 basis points in the pro forma of CVC Group.

Page 15. I'll talk about the cash flow. As we may see the cash flow was positively impacted by a reduction in working capital need mainly driven by the usage of international hotel rooms paid in advance in December 2015 due to a large change related to international payments implemented on such date.

We can see an increase in cash generation of 60 million in the second half and almost 200 million in the first half -- first half of the year when compared to the previous year.

Now moving on to page 16. Let's talk about the return on invested capital. The return on invested capital, Group CVC was 38% in the last 12 months ended in June 2016 almost two points above the same period of last year. CVC invested 15 million in the first half of 2016 in CapEx, we especially related to software and IT systems required to support our growth strategy. CVC Group invested 34 million in CapEx during this first half of the year. And that includes the CapEx related to new offices of RexturAdvance and Submarino Viagens.

Page 17 now, let's talk about the debt and financial expenses. The net debt balances as of June 30, 2016 amounted to 461 million, including accounts payable to sellers of Rextur and Submarino Viagens. During the quarter CVC borrowed an additional 150 million collateralized by factored receivables balance to be paid on October 18, 2016. Including factored receivables, the net debt was 594 million, which amounts to 1.25% the EBITDA, which are pretty healthy levels.

Financial expenses increased by 27% in the second quarter due to the increase in interest rates and the increase in the indebtedness mainly driven by the two acquisitions already mentioned.

Without taking to account the debt relating to new acquisitions, financial expenses have grown by 4% in the second quarter. Again, I would like to thank you all for attending this release conference. And now we'll start the Q&A session.

Questions And Answers

Operator

Okay. Now we'll have the Q&A session. (Operator Instructions) Mr. Franco Abelardo from Morgan Stanley has a question.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon, everyone. Congratulation on your results. My question is about the product margin that increased 60 basis points on CVC. You explained that was due to the mix, could you give us an idea what was the international mix in the quarter, maybe compared to the previous quarter, how much it has increased in both domestic and international?

And with the new foreign exchange level, what do you expect to happen in the next quarters, so well, are we going back to the previous reality in international sales higher than domestic sales? Thank you.

A - Unidentified Speaker

Hello, Franco. Thank you for the question. Actually, yes, there has been a strong improvement, quite in line with what happened in the first quarter in terms of the domestic mix. Although we see a recovery, because we didn't have any decline, when we talk about results, throughout this three months, there is a lag. So we see a growth, a small growth in the second quarter, which comes from a strong growth in domestic sales, they grew by double digit figures and the performance on the international that's in terms of boardings still had a major decline.

Q - Franco Abelardo {BIO 17416219 <GO>}

So we -- in the future I think maybe won't remain at 60 basis points. But we will still see an improvement of the mix when compared to the previous at this level of this 60 basis points as we have now given the recovery of the domestic segment. And within this improvement, how much could we consider that would come from new revenue sources such as insurance, city tours, does that already contribute to that margin or is that too early for that?

A - Unidentified Speaker

Well, although, it's been growing almost 30%, once again, when compared to the previous year it's still a 10% of the Company, of course, it has a contribution, but the mix of revenues, I think that international still has -- plays a major role.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. And when we look at the growth in revenue from Submarino and Rextur, we see that it was higher than the growth of bookings. So has there been an improvement in the product margin of the acquired companies? And what is that due to?

A - Unidentified Speaker

Two main reasons, for Rextur the market has been declining and they are the leaders and they continue to gain market share. So by increasing their market share inside airline company despite the declining market, they still have a good performance when compared to the market in general. And since they started selling hotels six months ago, as you saw, it increased 50% when compared to the first quarter, this product has the better margin and it contributes to increased revenues from Rextur. At Submarino we see

closer margins to what we had last year. Now with the new platform in operation starting in 1st of July, they are able to capture the entire portfolio of products of CVC. But in terms of results that will only show in the second half of the year.

Q - Franco Abelardo {BIO 17416219 <GO>}

Just a follow-up on my question. At Submarino they adhered [ph] to follow the same price policy and products when compared to CVC or can they work with a more combat brand or different prices?

A - Unidentified Speaker

Well, actually, same product same prices, for different products different prices. Submarino may have some different products, it will have and already has at different prices. Other products are the same, the prices tend to be the same. What do I mean by different products? The consumer that buy that Submarino is very different, the mix of products that they buy is different. And when we assemble the product, CVC may have a product at a similar price or not. But for a similar products, the prices tend to be similar.

For products made for online audience that have to do with the consumer online, have online prices. For example, in freight or charter flights, for example, it has its own policy not CVC policy. So we understand the consumers and what they want. We have a new member, new executive, he's been with us and he is not been introduced formally, but he is here with us. And he is going to do a very good job. And we also have (inaudible) comments that differences for example, offline consumers buy more in advance this buying vacation, online consumers buy something, more reduced purchases that the bookings and purchases are made closer to their boarding date. So that changes the price also.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you and good luck.

A - Unidentified Speaker

(inaudible)

Operator

(Operator Instructions) Mr. Jordan [ph] from JPMorgan has a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

This is Andrea from JP speaking. I work with Joseph Jordan. And just to talk about what you've mentioned in terms of consumer behavior now. Traditionally, we ask what that is like and to the extent you could tell us please, what the demand is like for the next, for the coming months in terms of booking and also some update on the rollout of the online platforms. Of course when compared channel to channel given that the situation is different in this last month. I wouldn't say trade up or trade down, because that's very relative, international market, domestic market. I know that you're using -- if you could

share anything with us in terms of market share, you know, in terms of more recent trends?

A - Unidentified Speaker

Hello, good afternoon. We have seen an improvement in the performance of bookings. In the second quarter there has been a strong acceleration when compared to the first quarter from 2% to almost 7% especially in April, May and June. And for international bookings of course, that helps. In this overall figure we had a negative impact due to a strong appreciation of the foreign exchange. And now we're reducing that, of course, exchange rate is important, but the volatility is much worse than a higher level of exchange.

Since it reduced, the real appreciated a bit, international consumers are coming back. Starting now in July, we have seen interesting figures in terms of boardings and international trips. And the agent channel also has a very good performance. With the gain of market share, given the situation of the economy, creating a concern regarding the delivery of products in the future.

We saw last year some companies closing and going, you know, with a decrease in demand, which favors CVC because we have a 40 -- we've been in the market for 43 years and have a very strong brand name. We've seen the online sales dropping probably due to the change in the platform. But if you think that now we have the same brand for the same portfolio product at the same price, we look, maybe something happen to CVC and we've seen that the online market in general has declined. So the demand for consumers -- consumer seem more comfortable on an offline store, because they can ask questions and the credit facility offered offline is important. And that allows for some conditions that online, you can do, online you can only pay with a credit card. So, more than one-third of our channels, offline are made with payment slips or payment through cheques from banks, which is a different situation.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, and two more questions. One regarding the timing of the Olympic Games, of course this can be an opportunity to create more vacations, many schools changed their vacation periods, others didn't. So I would like to understand what could be the impact on the boarding and purchase decision?

Second question talking about the Carlyle that left your company, if that changes anything in management. Some executives who have their contracts expiring throughout this year, this period. Could you talk about that announcement a bit, please?

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

(inaudible) this is Falco. We have scheduled private meetings, because we believe that speaking in public -- there is a CVM rule about that, I didn't create it, but I'm a good soldier, obey to those rules. And we can't -- I can't talk about that in public, but we can talk in private. Carlyle is not leaving, they just published a material fact, they are selling a

share, but they remain with the share and the company. We can provide more details in the coming days.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. I don't want to put anything -- I don't want to make you not comply with the rules, I'm sorry about that.

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

And regarding the dates of vacation periods and Olympic Games. Well, the Olympic Games has a strong impact in Rio de Janeiro because vacations in Rio used to be in July for schools and now will be in August. But that's more of a local thing. Rio accounts for 8% of the Company.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I'm sorry, 10?

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

Yeah, around 10% of Company's figures. It's a significant figure, but it's not such a big impact. And since sales are made somewhat in advance, most of sales have been made already. So we don't see any impact on bookings in that area.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, thank you.

Operator

(Operator Instructions) Mr. Joel Oliveira [ph] from Valor Economico has a question.

Q - Joel Oliveira {BIO 18029349 <GO>}

Thank you. My question has been answered already.

Operator

Thank you, Joel. Mr. Thiago Macruz from Itau BBA has a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

This is Thiago Macruz speaking. I would like to talk about working capital. In the last 12 months consumers are more conservative and try to buy at the last minute the packages. Could you -- do you think that with an improvement in the consumer scenario there will be a reversal of that trend until the end of the year, do you think?

A - Unidentified Speaker

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Hello, Thiago. This is a pendulum, you know, when the consumers don't feel so comfortable they start to buy closer to the boarding date. When they are more confident, they buy more in advance. This has been a behavior we've seen in for a long time. What we mean is that, according to our experience, this won't get worse. The trend is further to improve, but when it will improve, we really don't know. But as soon as the economy starts growing or the unemployment decreases, now that, that helps, but if things remain as they are, it's already in our results. So from now on the trend is of improvement.

Q - Thiago Macruz {BIO 16404924 <GO>}

Okay, thank you for the answer.

Operator

(Operator Instructions) Mr. Luiz (inaudible) Bank has a question.

Q - Unidentified Participant

Good afternoon. First, I would like to congratulate you on the results of the quarter. And my question is about the -- this receivables of Bradesco. And what's the objective of that?

A - Unidentified Speaker

Well, as we did last year, the Company, this is a good way to generate cash. In the first quarter, we used more cash to pay because of some payments we made on January and February due to carnival and vacation and then May and June.

In the second quarter, there is a strong cash generation. Last year we have paid a debt that ended at the second quarter. And one that would mature in three years. The Company uses these factored receivables for short-term cash generation. Up to 30 days it's a less expensive debt. And when you exceed the 30 days period, it becomes more expensive than a credit facility with the bank. So this was done to do the same. We obtained a -- made a new borrowing in the first quarter to pay for things in the -- expenses in the second quarter due to the cash generation scheme.

Q - Unidentified Participant

Thank you.

Operator

This will be the last announcement. (Operator Instructions) Now, I would like to turn the floor to Mr. Falco for his final remarks.

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

Thank you. Thank you for your patience. The patience of investors and the market. The Company is once again able to show robust results and has been quite resilient in such a turbulent market. Brazil -- we expect Brazil will improve a bit and we can work with a better situation. But we are confident that our work has been in line with the expectations of our

investors and we make our best to have best news for you in the next quarter based on the results that we will build.

Thank you for the Investor Relations team lead by Fogaca Luiz and the whole team. If you have any question, please feel free to contact them. Thank you Have a good afternoon and a good day.

Operator

This concludes today's CVC's Second Quarter 2016 Results Conference Call. You may disconnect your lines at this time and have a good day.

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