

## Q3 2018 Earnings Call

### Company Participants

- Leopoldo Saboya, Administrative VP, CFO & IR Officer
- Luiz Eduardo Falco Pires Correa, CEO, Member of Board of Executive Officers & Vice

### Presentation

#### Operator

Good afternoon. Welcome everyone to CVC's Third Quarter 2018 Results Conference Call. Today with us, we have; Mr. Luiz Eduardo Falco, Chief Executive Officer; and Leopoldo Daboya, Chief Financial Officer and Investor Relations 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). We would like to inform you that this event is recorded. (Operator Instructions)

We have simultaneous webcast that may be accessed through the company's website. The slide presentation may be downloaded by phone 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 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 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 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, Flora. Good afternoon, everyone. We are pleased to begin our conference call to discuss the CVC Corp results of Third Quarter 2018. Regarding today's agenda, as always, we will talk about the main events of the Third Quarter of 2018, then we will present the financial results; and lastly, we will begin the Q&A, as Flora told to us.

To begin, I would like to talk about the highlights of the Third Quarter 2018 on CVC Corp. We're on Slide #4, our quarter that continued to show resilience and robust financial results. In this quarter, when we add Bibam Group's figures, Bibam is a company that we acquired in Argentina, we grew 10.4% in bookings. It's important to emphasize that this growth is rather good in our robust base present on the Third Quarter 2017 and confirm our expectations that impacts of the Second Quarter caused by the truck drivers' strike, (inaudible) (devaluation) and the strike was temporary and did not represent a change on

the trend. The Online Channel has already reported in the operating release had significantly grew, reaching 86.5% on this quarter, driven by a good performance of CVC de Viagens as well as cvc.com on this quarter. It's very important to highlight that this growth of course is a solid growth based present in Third Quarter of '17. And according to this chart, on the left side of the slide, the channel has been presenting consistent growth for the last 5 quarters.

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Regarding the financial results of CVC Corp, we posted a great resilience and robust financial results, growing 10.8% in net revenues, 13.4% in adjusted EBITDA and 27% in net profit. When compared with Third Quarter 2017, it's at this time including the Bibam Group's figure. The numbers are not very representative yet due to the size of the business. And we have only one month to consolidate. In the Third Quarter, CVC starts to introduced a new digital CRM tool with Minha Agenda, call it, Notify, which will inform sellers in realtime of the best available rates in our gateways. The purchase of this new tool or the proposal of this new tool is to increase the conversion of budgets in the CVC start, increasing the conversion rate on sales.

And since the end of our CVC Corp online business unit and digital strategies, (this area) has been led by Fábio Jesus Augusto. Fábio, headed digital strategies for Google travel segment and bringing his solid experience in digital and marketing sectors and related areas to CVC Corp. Through his career, he has led digital projects in multi-national companies such as Whirlpool, which include strategic plan, brand building, communications, digital transformation, e-commerce and selling techniques based on the shopping experience of omni-channel clients.

Bloomberg Transcript

During the Third Quarter, the company announced 3 acquisitions, Esferatur, whose approval is pending at Cade, the administrative agency in Brazil and it comes to the group to strength the Airline Consolidation segment and the first 2 operators outside of Brazil that we also bought in Argentina, one is Biblos, the other is Avantrip. No. Biblos is another, Avantrip, they are first one. They are part of the Bibam Group and is one of the largest e-commerce groups, in terms of numbers of transactions in Argentina. We see annual bookings for approximately BRL 200 million in 2017. The second one, the other acquisition and we will probably conclude on the Fourth Quarter, Ola Transatlantica Turismo, which operates this regional travel segments through 3 main business units: Ola Mayorista de Turismo, Quince Añeras and Transatlantica Viajes y Turismo with retail business. And the annual bookings for this second company is about \$2,805 million.

On Slide 5, we will talk about the main financials indicators of CVC Corp that showed growth in the main metrics. As I mentioned before, CVC Corp posted again robust financial results growing 10.8% in net revenues, 13.4% in adjusted EBITDA and 27% in net profit, when compared with Third Quarter of 2017. In the first nine months of 2018, we posted the following growth. Net revenue accumulate 10.7%, adjusted EBITDA 14.5% and adjusted net income about 34.8%.

Regarding the working capital, on the last 2 quarters, we use this working capital as a lever for the company. We had in our business plan the company delivering through the year. And we decide to stay the leverage is stable and use this as our working capital tool to finance better our customers. We have been some signs coming from the market. First,

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the market was so soft in the Second Quarter as you have been noticed with all the problems that Brazil had and also we note that the payment cash or the parts of the payment cash of our customers decreased from 21% to 17%, showing that the market is soft and without money and then we use this lever to compensate this to the market. On the end of the day what we have we could keep stable the company in terms of leverage. And we could capture a lot of the market, which we think increase quite a lot of our market share. We still don't have the numbers, how much we capture. But definitely, we increase very fast our speed to capture market share with business strategy. Business strategy is not our life strategy, one-time strategy. And we use it when we see this things on the market happen. We hope that Brazil now coming back for the track and economy is starting to coming back to good numbers as we could see initial signs here. We can slowly get out of this lever and coming to the normal world, as you know, most of the things on this industry are in the pendulum behavior.

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 very much, Falco. And giving -- continuing with our presentation now on Slide #7. So we will talk about the bookings, dynamics in the periods and first of all, it is important to mention that on this specific slide, we do not consider Bibam Group bookings. In addition to that, we always refer to a pro forma basis comparisons and when not, I will inform. As Falco mentioned before, the highlight here is, of course, the quarter is the online channel performance that posted very strong performance, 86.5% growth, driven by the excellent performance of Submarino Viagen and the resumption of cvc.com growth. It's important to highlight that the online channel growth came with an improvement in the Submarino Viagens' product mix and a significant increase in the size conversion rate, posting healthy, above 50% increase of this ratio, reinforcing our speech that all this growth has been done with a positive EBITDA and net income.

On the next Slide #8, I will detail our revenue and take rate performance. So the net revenues of boarding-based business units that include CVC Experimento, Trends and Visual reached BRL 326 million in the quarter, representing a growth of 5.6%. The percentage of net revenues over boardings, the so-called take rate, was 14.8% in Q3, 20 bps down from Q3 last year, mainly due to the international mix in the quarters holding. And somehow the requirements of slightly higher level of tactical promotion on the CVC Leisure and the consumer confidence was still unstable and poor. The net revenues of booking-based business units, RexturAdvance and Submarino Viagens and Bibam Group, totaled BRL 89 million in the quarter, 35% higher than Q3 last year. The take rate was 7.1% in Q3 as a results of the greater rate of the online that has a higher take rates than the airline consolidated business as a pattern. So the CVC Corp net revenues reached BRL 415 in the quarter and more than BRL 1.1 billion in the first nine months of the year, representing 10.8% growth or BRL 40 million above last year and 10.7% growth when compared to Q3 and the year-to-date last year pro forma respectively. The take rate consolidated was 12% in the Q3, in line with last year's performance.

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On the next slide, I will detail our operational expenses. So first of all, the recurring operating expenses grew 7.9% in the quarter, mainly due to the increase in marketing expenses in the online business units, in line with the very strong growth on the unit and M&A expenses. General and administrative expenses fell by 5.5% in the quarter, due to synergies captured in the business units acquired in the ending of 2017. In the year-to-date, 2008 (sic), (2018) general and administrative expenses declined 4.3% when compared to last year.

Slide #10, we see the performance of our EBITDA and EBITDA margin and as a result of the (combinations) that I just mentioned to you, CVC Corp adjusted EBITDA was BRL 205 million and BRL 524 million in the year-to-date, representing a growth of 13.4% and 14.5%, respectively, when we compare to last year figures. The EBITDA margin increased by 110 bps in the period, reaching almost 50% margin. In the year-to-date performance, the margin increased by 106 bps, reaching 46.9%.

Slide #11. We have the performance of net income that reached in the quarter BRL 92.8 million in Q3, this is the adjusted net income growth, an increase of 27%. The year-to-date, the net income grew almost 35%, reaching BRL 220 million. The net income is a combination of the EBITDA growth with reduction of our financial expenses that drop 21% as a reflection of reduction of the cost of net debt and a higher revenue from anticipation to suppliers.

So now on these following slide, the following 3 ones, I will detail what Falco mentioned on the beginning of our presentation regarding the working capital. So he gave the more strategic view on why and how we did it. Now I'll give some more colors and some more details on that, walking you through the working capital, our -- the net debt of the company. So the very first message here is that, the company continues to generate solid cash net income. First of all, on the quarter, it was BRL 290 million and in the year-to-date was BRL 517 million, almost the double when we compare to last year figures, both quarter and year-to-date. As we all know, we came from a very tough Second Quarter and a pretty stable Q3 as well, where the consumer showed a weaker capacity for payments in cash at site, for leisures, especially and a pretty soft Corporate segment. In that context, it was strategic for us to keep the strong growth of our businesses and kept gaining market share through working capital investments that I will detail on the following slide.

So Slide #13. Before we enter in the business, it's important, first of all, a clarification was a sort of disclaim about the working capital change. So within the variation of BRL 617 million that is seen on the chart on your left-hand side, in the nine months of 2018, we have BRL 130 million that are reclassification of the line adjustments of noncash items. In the case, more specifically, income tax paid in the line of orders that you can see on the next chart within the accounting cash flow that was only made in 2018. So this is just a change between lines and obviously, does not change the cash consumed of BRL 178 million, which reasons are as following: so I will now give you more color on this change of roughly BRL 500 million of working capital in the year-to-date.

So first of all, it's a reflection of organic bookings growth. This, we estimate as approximately BRL 120 million to BRL 140 million of increase only due to that thing. And

also we had, throughout the year, it was not something specifically to the quarter and the effects from the adequacy of collection and payment processes from the 2017 acquired companies.

Another reason why was the centralized negotiations with some airline companies that in one hand, impacted the working capital but on the other hand, the business units were beneficiated by only one single condition. We also had some other, let's say, conjectural and one-off effects is as following: we had, as you know, since the beginning of the year, the judicial deposits related to the stock option plan claim of BRL 50 million. The reduction in the share of payment in cash that Falco mentioned in the beginning of the presentation of approximately BRL 120 million of impact. And this last item was a result of the economic turmoil in the period, which change the mix from 21% in Q3 to 17% in Q3 '18 for the CVC Leisure business, the share of cash and site payments to the share of, let's say, payment in installments that didn't change the number of installments per se. But only the mix between these 2 categories of payment in installments and payment in cash.

Finally, on Slide 14, we see that even with these working capital changes, we kept our financial leverage at around 2x net debt to EBITDA, stable from Q2 to Q1 and higher than last year. But in this case, it's mostly due to our acquisitions that was made on Q4 last year. Also, important to mention that we raised BRL 400 million with first tier banks in the quarter and the average cost of that was close to 108percentage of CDI variation.

Well having said that, I would like to thank you for participating with us so far and now we are going to start the Q&A session. Thank you.

## Questions And Answers

### Operator

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

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

Thank you, Flora. Okay. Thank you very much to join us. As you know, I will go to the board on 1st of January. The next conference call will be lead by our next CEO, which is Luiz FogaÃ§a. FogaÃ§a is very well trained to take this team ahead. And I will stay with part of you as a shareholder, trying to help those guys to make results even better than we could do ourselves with our team of today. And always saying to you thank you very much for your confidence and for your patience for the sell side for the shareholders and even for all the people from the industry, including our competition, which is always hearing us.

We should improve our (corporate) team to working harder here and make our peer list. If you need an assistance, you know that you have our related investment team here 24x7 waiting for your calls and try to serve all kinds of thank you very much, gentlemen and have a very nice evening.

## Operator

Thank you. This concludes today's CVC's Third Quarter 2018 Results Conference Call. You may disconnect your lines at this time.

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