

Q1 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

Other Participants

- Andrea Teixeira, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome everyone to CVC's First Quarter 2016 Results Conference Call. Today we have with us Mr. Luiz Eduardo Falco, Chief Executive Officer; and Mr. Luiz Fernando Fogaca, Chief Financial Officer. This event will 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 paper has been prepared according to the proceedings adapted in Brazil. Before we start, we would like to mention that the forward-looking statements are based on the beliefs and assumptions of CVC management and on the information currently available to the Company, as well as information available to them. 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 by CVC in such forward-looking statements.

Now, I would like to turn the conference over to Mr. Luiz Eduardo Falco, from CVC, who will start the presentation. Mr. Falco, please, the floor is yours.

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

Well, thank you very much. Good afternoon to all. I have the great pleasure to start this teleconference to discuss the results of 1Q, 2016. In terms of today's agenda, as it's our habit, we will first address the actions we developed in 1Q, 2016. And right afterwards we will present the financial results. And at last we will have the Q&A session.

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To start, I would like to speak about the highlights on the 1Q on page 4. The macroeconomic environment in Brazil remained quite challenging, and was marked by the continuity of the drop in the GDP, the rising unemployment rate, strong devaluation of the real currency and the high political unrest. This brought about several effects on sales with a contraction in the business market impacting negatively the RA sales, which despite of that had an improvement in market share. The leisure industry in CVC once more was able to post growth in sales, and due to its product mix reinforced the capacity of CVC to react to the market adversities. These factors resulted in a drop of CVC of 3.9% in confirmed reserves in 1Q versus last year.

In February, we got our sales convention in Costa do Sauipe with over 1,200 franchisees and executives or franchisor. In the first quarter we opened 17 new stores, which resulted in a 102 net new stores LTM, quite in line with our goal to open 100 stores in 2016. On March 1, 2016, the Brazilian government enacted provisional remedy to reduce the charge of tax to pay international suppliers from 25% to 6.38%. The new taxation is applied to all the industry and CVC transferred to the price of the service the value of this tax.

It's important to mention that this taxation is not applied to the purchase of international air tickets which are paid in Brazil through the IATA system. The recent valuation of the real currency favored the sales of international products. In March, this segment presented growth of 15.6% as compared to last year.

Several initiatives implemented in 2015 to capture new revenue flows such as insurance, tickets, car rentals and city tours posted a growth of 15% in this segment in 1Q '16 as compared to 1Q '15. These ancillary products reinforced CVCs positioning as a full service renderer in the service segment, and represents 8% of our sales. We also launched the new CRM tool already implemented in over 600 stores with the expectation to be implemented in all the networks until July 2016, and which has already presented interesting results in improving the sales convention at our clients.

CVC also strengthened its online team with the hiring of Alipio Camanzano, ex-CEO of Decolar.com, and also three experienced savvy executives of the industry, they will present fundamental role in the developing of the online channel in CVC.com and Submarino.com.

At last for our investors, we're happy to announce that CVC joined the IBR index, IBRX100 an important index at BM&F Bovespa, which includes the 100 most traded shares at the exchange. This also reflects the growing knowledge and interest of the market in our company, and we also had the approval in our shareholders meeting of the payment of dividends referring to results of 2015.

On slide 5, we will speak about the CVC Group results on 1Q, 2016. Despite the challenging environment, we posted growth in net revenues of 2.3%, and two-digit growth in EBITDA of 10.8%, and also in adjusted net profits of 13.2% in this 1Q, as compared to pro forma 1Q 2015.

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On slide 6, I'll speak about the online CVC channel performance. This channel continues to expand its product offering through the improvement of technology, introduction of new products and functionalities. In the 1Q, we had the integration of the CVC.com and Submarino Viagens teams enabling the capture of synergies and reductions of cost. The new team has concluded that diagnosis of the current situation, establishing a plan of action to see that the growth of the online channel in the first quarter. We have the implementation of the multi-mobile devices platform for hotels and airlines, as well as new functionalities of the platform, which was caused certain instability in the short term in January and February, but which was already solved in March.

Now on slide 7, I'll speak about the updating in Submarino Viagens and RexturAdvance. Submarino Viagens and RexturAdvance changed the head offices to Santo Andre in April, enabling additional synergy capture for the group. As we announced previously, CVC reinforced its online team in order to speed up the growth of this channel. Currently, we are adjusting the platform of Submarino Viagens to improve the product mix in sales this year.

Despite gaining market share, RexturAdvance presented a drop in sales in the 1Q '16 due to the contraction in the corporate segment. The sales for corporate hotels in RA, however, has shown posting significant growth to 100% in the 1Q '16 in comparison with the last Q '15.

Now I will give the floor to our CFO, Luiz Fogaca to share with us the financial results of our company.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good afternoon to all. We will start on page 9, and we will speak about the dynamics of our reserves[ph] confirmed bookings on the period. Our confirmed bookings totaled 1.290 billion in 1Q '16, representing growth of 1.7% in comparison to 1Q '15.

The consumer confidence drop the devaluation of the real and the promotions, the last time promos offered by the suppliers made our consumers to continue acquire their travel packages closure to the travel time; even if this is behavior had been less pronounced than the observed in the last previous quarter.

The drop in confirmed bookings international and sea cruise segment in 1Q '16 were caused by the real currency depreciation and by the reduction in cruises offered. And both were more than offset by the two-digit growth in domestic segment. The confirmed bookings on Group CVC totaled 2.61 million in 1Q '16, representing a drop of 3.6% compared with 1Q '15 due to the contraction in the internal market.

Now, performance of sales channels. The strong growth of the confirmed bookings in the Independent Agents channel reinforced CVC's credibility in a challenging environment. The online channel was impacted in the quarter by the implementation of new functionalities as mentioned before.

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We continue in our process of expansion of stores, having opened 17 stores in 1Q, which corresponds to 102 net stores in the last 12 months, we closed the quarter with 1,021 owned stores. Our reserves in the same quarter grew 3.6% compared to the previous year, and the reserves for departures in the next quarters are again drop -- growing after two quarters of drop. Despite the drop in 1.5% in the confirmed reserves in 1Q '16, the percentage of net revenue increased 0.6 percentage points from 14.6% on 1Q '15 to 15.2% in 1Q16. The net revenue of CVC was 280.4 million in 1Q '16, with a growth of 2.3%.

And the percentages of net revenue on confirmed bookings was 12.8% on 1Q '15 and increased to 13.6% in 1Q '16, which represents an increase of 80 basis points. The operating expenses -- recurring operating expenses of CVC posted a drop of 1.8% in 1Q, as compared to 1Q '15 due to the optimization of the investments of marketing and its processes within the strict control of expenses and the synergies generated by acquisitions. Operating expenses of CVC dropped by 6.8% as a consequence of the optimization of processes and structure, and the capture of synergies from acquisitions.

Now slide 13, EBITDA now. CVC posted adjusted EBITDA growth of 7.1% on 1Q and 10.8% on the Group CVC pulled by the growth in revenue and the reduction of operating OpEx. The non-recurring expenses were limited to the stock option and extraordinary bonuses, which totaled 3.7 million in 1Q '16, 3.1% are referred to the program of the (inaudible).

Going to page 14, we are speaking about the net -- adjusted net profit of the Company. It grew 5.4% in 1Q, pulled by the operating expense, while the adjusted net income grew 13.2% in 1Q pulled by the improvement on the company RA. The adjusted net income as a percentage of the net revenues improved by 0.8 percentage points at CVC and 2.1 percentage points in the pro forma of the Group CVC.

Slide 15, the operating cash flow was negatively impacted in the -- by the working capital, which grew due to the change in the behavior of consumers, which have been buying closer to travel times and the boarding dates, which was mitigated by the positive impact in the large prepayment to wholesale.

In the 2Q '15 and 3Q '15, the reduction in the time between purchase and travel time was seven days, and it fell to three days in the 1Q '16. As a consequence of the effects we mentioned, the cash consumption in 1Q improved by 135 million, when compared to the same period 2015.

Slide 16, we will discuss some financial metrics. The return on invested capital was 32.4% in the last 12 months, which ended March 2016, 1 percentage point higher than the LTM, March 2015. CVC invested 5.3 million in 1Q related mainly to software and technology of information systems, while the Group invested 10.5 million in 1Q, partly in (inaudible) new offices of RA and SV in Santo Andre. CVC will pay a 103 [ph] million in dividends referring to results of 2015, which is equivalent to 70% of its net profit and with and yield of 4.7%. And this is in terms of net worth represents 15 million.

Now to slide 17, we will speak about the net debt and financial expenses. The balance of debt in March 31, 2016 was 299.8 million, considering the two acquisitions. Considering the

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factored receivable, the net debt was 603.4 million in March 31, 2016 equivalent to 1.3 times EBITDA accumulated in the last LTM. CVC renegotiated the loan in 1Q, which now expires in 2019. With the payment of the first tranche of the principal and interest in December 2016, this debt is linked to foreign (inaudible) to foreign currency and was totally protected by hedges, resulting in the cost of a 108% of CDI. Financial expenses of CVC increased 24.8% in 1Q due to the increase in CDI and the increase in indebtedness pulled mainly by the acquisition of Rextur and Submarino caused interest of 5.7 million in the period. Without considering the debt relative to the acquisitions the expenses grew 7.4% in 1Q.

We would like to thank you all for participating. Now we will open to our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Ms. Andrea Teixeira from JP Morgan has a question.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good afternoon to all. I would like to go over what Fogaca mentioned, and I have two questions. One to Falco with -- on something which was mentioned on the previous calls. Because you mentioned how the quarter was due to small participations on what's happening within the quarter. So, I would like to know what's happening in that second quarter. I would like to know how is demand going, and how are you getting around with now that you opened up the corporate figures, and perhaps it's getting even worse in view of the deepening of crisis in Brazil?

And the second question is to the financial people. Fogaca mentioned your acquisitions and the financial expenses with the merge of cash flow. I think it is more difficult to weather the crisis, how do you discount your, or how you factor your receivables, how do you see the factoring of receivables throughout the year?

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

Well, in fact clients are anticipating and are trying to buy the closest possible tour trips, but they didn't change radically. They just anticipate -- no, he corrected himself. They postponed their purchases. And the high year impact in working capital is that we imagine that in the second quarter it will be neutralized as compared to last quarter. And sales are normal comparing the year's seasonality, and we think that this cash flow problem would be okay with this characteristic of postponing by the clients.

In March, we saw the high lead of conception of clients for some products that were repressed. In March, dollar -- the dollar went down, it was around 4, in March it went down. And sales -- international sales grew by 15%. So we will have to cope with this volatility world with some rallies, but sales overall have gone around the same reason of the previous year's expecting seasonality, but the macroeconomic industries have suffered the very strong impact, and we have to have the proper tools to capture sales. But we

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want to see if we advance both in corporate and traditional markets. We have to advance in market shares. In a crisis period, you see that the RexturAdvance have more appropriate tools and more advanced situations to deal with this volatility situations.

In the corporate market, need to be -- we had clearly we have a drop and you'll see airlines, which reported a strong drop in corporate markets RexturAdvance most of the advances are catered to the corporate markets. And that -- not the large corporations, but the (Foreign Language) as we call it in Portuguese, small corporations.

And you will also will notice that despite the corporate market having dropped, and this having reflected in the offer of companies that have cut their offers, this have also improved and increased our revenues. So Rextur, even in this problematic turmoil market, we even such squeezed market was able -- they were able to increase their revenues. And this means an increase in market share gains in the environment of consolidation in Brazil, just supplementing to points in this question. Normally, we didn't see many striking results, but we see that April was a month which was even better. In May we didn't see decelerations, we have seen a slight improvements.

As to the financial factors, Falco said, the 1Q was more impacted due to the amount of the factored receivables and anticipation prepayment to hotels at the end of last year. But month-after-month this was okay in the 1Q, and now in the 2Q we will also zero what was pre-paid. And in the 2Q, 2Q generally is a more difficult month generally in terms of cash due to the -- being after carnival in the high season and so on. And we will have to work a lot on cash generation, and this will vary in terms of reduction of indebtedness.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Now when you mentioned the months of April and May, obviously, this is the consolidated vision of the figures including RA and Submarino Viagens.

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

No, in reality to become more expressive is a structure of the leisure market, in the 1Q 1.7% we separated it. Now when we look of Rextur, obviously the corporate market continue to drop, the airlines continues to drop, and they have a very strong footprint in getting to gain markets and so on. But we then reinforce the team there as we said, and we are trying to use as best as possible the platform, and we hope to get to the second half of the year with a stronger basis.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So summarizing, naturally you improve in the sequence, RA will improve, will deteriorate now, just looking at the macro and Submarino Viagens will improve because what's the timing for all this platform? It's only until the year-end, or is there something that we can advance?

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

Bloomberg Transcript

Well, we have the quick-in in June with several new situations that will enable us to achieve synergies with packages, which improve a lot, but in terms of RA it was worse in a worse situation if we had a drop of sales, but it dropped less this 1Q. But the market has been posting drop in sales overall. But the company was able to grow its revenues. It grew its nominal revenue in EBITDA provided profit in the 1Q.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Well, great. Thank you once more.

Operator

(Operator Instructions) Now, I would like to give the floor to Mr. Falco for his final considerations.

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

Well, thank you very much. So, first I would like to thank you all who have devoted us their time to join our web conference and listen our financial results. We naturally believe that the macroeconomic Brazil has some homework to do, today, we had the vote in the higher half, but we have seen the resilience in the leisure consumption market, and this is our business. And also we have seen very interesting approximations like the RA had even with what we said the segment had improvement in the revenues with a strong vigor in the EBITDA.

From now on, we will report on the three companies, and you will be able to solve your questions in the report and the dynamics between the three companies, but feel at ease we have our team which is leaded by Fogaca, and we are at your service at your disposal. Good afternoon, and once more thank you for joining us today.

Operator

The earnings teleconference of CVC is closed. We thank the participation of all, and wish you a good afternoon.

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