

Q2 2018 Earnings Call

Company Participants

- Leopoldo Saboya, Chief Financial Officer, Investor Relations Officer
- Luiz Eduardo Falco, Chief Executive Officer

Presentation

Operator

Good afternoon. Welcome, everyone, to CVC's Second Quarter 2018 Results Conference Call. Today, with us, we have Mr. Luiz Eduardo Falco, Chief Executive Officer; and Leopoldo Saboya, Chief Financial Officer, Investor Relations Officer. Today's live webcast and earnings release may be accessed through CVC's website at 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 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 only 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 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 {BIO 17914305 <GO>}

Thank you, Flora. Good afternoon, everybody. We are pleased to begin our conference call to discuss the CVC Corp results of the second quarter 2018. Regarding today's agenda, as always, we will talk about the main events on the second quarter; then, we will present the financial results; and lastly, we'll begin the Q&A.

To begin, I would like to talk about the highlights of the second quarter on CVC Corp. A quarter that showed great resilience and robust financial results, despite of the market's challenge, like World Cup, drug strike and heavy FX change. In Slide number 4, in this quarter, CVC corporate bookings grew 5.7%. The online channel grew 36.4%, driven by a great performance of Submarino Viagens, and the resumption of cvc.com growth on this quarter. It's important to highlight that the online channel has been presenting consistent growth on the last four quarters, as shown on these slides. And if you take June, specifically, you can show -- we can show that online is growing 48%.

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Regarding financial results on CVC Corp, despite of the challenge that we mentioned before, CVC posted great resilience and robust financial results, growing 12.7% on the net revenue, 18.7% in adjusted EBITDA, and 63.1% on net profit, when compared with pro forma basis second quarter 2017. Some other initiatives that I would like to highlight. In our partnership with Submarino Viagens and Livelo, we have been working together since June in a deal which customers can use Livelo points to purchase products on their all the CVC stores. And also, Livelo points can be used in conjunction for other means of payment enforced CVC competitive differential. As well as sometimes Submarino Viagens also give some Livelo point for their sales. There is also a building, which now holds our digital engineers and technology employees, which is already in operation, aggregating all the teams on the same space and accelerating digital deliveries for other channels, which we call CVC digital.

We also launched a new network training platform aimed to improving the sales standard. The digitalization growth brought the needs for a new platform to bring fluidity between the information of different channels, reinforcing CVC Corp omni-channel position. Regarding market initiatives, Rede Globo, in partnership with CVC, launched a national television project that would address the diversity of Brazil tourist potential, such as beach, mountains and parks, as well as festivals. This project will run between now and June 2019. And also, for the first time since the IPO in 2013, CVC shares joined the BOVESPA Index, IBOVESPA.

On Slide 5, we will talk about the main financials indicators of CVC Corp that showed growth being the main metrics. As I mentioned before, CVC Corp posted robust financial results, growing 12.7% in net revenue, 18.7% in adjusted EBITDA, and 63.1% in net profit when compared with the second quarter 2017. In the half, or on the first semester or the first half of 2018, we posted the following growth, 10.6% on the net revenue, 15.4% on adjusted EBITDA and 41.4% on adjusted net income.

Now I will pass to our CFO, Leopoldo Saboya, who is going to talk about the financial results of the company. Leopoldo?

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Falco. Good afternoon, everyone. So moving immediately to Slide number 7, please.

We will talk about the bookings of the company. But before that, I would like to just mention that a lot of comparisons will be made on a pro forma basis. If not, I will remind you. So bookings of CVC Corp reached BRL 3.1 billion in the Q2 '18, representing growth of 5.7%. In July, after all the adversities mentioned by Falco, CVC Corp already posted double-digit growth back into the Q1 performance, in average.

As you can see in the second chart on the left-hand side, the online channel, again, posted strong growth driven by the good performance of Submarino Viagens, and the resumption of CVC.com growth. It is important to highlight that the online channel growth came with an improvement in the Submarino product mix from 8% to 22% in packages

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and hotels, as shown in the chart on your right. And a significant increase in the size conversion rate that grew 45% in this period. All these results with no cash burn, in fact, with an accretive in EBITDA and net income.

Next slide, an analysis on our revenues. So the net revenues of boarding-based units, like CVC, Experimento, Trends and Visual, totaled BRL 249 million in Q2, 10.9% higher. The percentage of net revenues over boardings, the so called take rate was stable in 14.8%. Net revenues of booking-based business units, RexturAdvance and Submarino Viagens, totaled BRL 65 million -- BRL 67 million in Q2, 20% higher. As I mentioned before, this variation was mainly due to mix improvements in Submarino Viagens, which started selling products with higher margins as well the stability of the margin in RexturAdvance. So here, I'm mentioning, talking about the improvement in the take rates from 6.2% to 6.6% quarter-over-quarter.

For the CVC Corp, net revenues we reached the BRL 316 million in Q2, growing 12.7%, or BRL 35 million in additional revenues in absolute terms. In the first half, we grew 10.6% to BRL 701 million or BRL 67 million higher than the same period last year. The take rate over CVC Corp bookings was 11.7% in Q2, higher by 10 bps, due to a greater mix of products in Submarino, as I said before, the stability of the margin in RexturAdvance. And also, due to the top line in captured synergies in Trend and Visual already these numbers.

We can move now to Slide number 9. Talking about operational expenses. Recurring operating expenses grew 9% in Q2. Due mainly to increase in marketing expenses, along with our growth and expenses related to M&A activities. In the first half, on the other hand, the same comparison, the same group of expenses increased 6.8%. Important to mention that the G&A expenses increased 2.8% in the quarter, lower than inflation in periods, basically due to the synergies of the -- on the expenses being captured in the new business units that we just acquired. In first half '18, general and administrative expenses fell by 1%.

Now moving to the Slide number 10, the EBITDA performance. As a result of the overall operational performance, CVC Corp adjusted EBITDA was BRL 118 million in the second quarter, and BRL 319 million in the first half of the year, representing growth of 18.7% and 15.4%, respectively. EBITDA margin increased 119 bps in both periods, reaching 37.3% in the second quarter, and 45.5% in the first half of 2018.

Moving to our chart of indebtedness and financial expenses. We can see that in June, we reached BRL 1.28 billion of net debt, including acquisition payables, representing 1.86 times EBITDA leverage. When we add this sector of receivables, the net debt was BRL 1.38 billion, versus a slightly above BRL 1 billion last year. Worth mentioning that the company deleveraged fast from 2.16x in last quarter to 2.01 times EBITDA in this quarter, taking the concept of full liabilities in that figure. During the quarter, the company raised BRL 300 million in bilateral bank debt. The average cost of funding was around 107% of CDI rates variation and support the company's working capital needs. With that strategy, we've reduced the revolving use receivable discounted, keeping it at a buffer for cash flow short-term dispatches. Net financial expenses fell 5.6% in the quarter, due to the drop in CDI rates, reduction of the cost of the company's debt.

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Finally, the rise in expenses related to payments through bank slips was a reflect of the increase in the company's bookings (inaudible) for certain periods as the greater mix of this payment type, which came from 25% in June last year to 32% approximately in June, 2018.

So on next slide, the performance at the bottom line of the company was pretty remarkable with a 63.1% growth over last year, reaching BRL 35.2 million in net income. First half, 41.4% growth, reaching BRL 127 million in year-to-date, I'm sorry.

We're now moving to the cash flow analysis. In Q2, CVC Corp generated BRL 110 million in operating cash, net of investments and given the results presented in the previous quarter, operating cash consumption was BRL 204 million in the first half of the year. This consumption is BRL 110 million higher than first half last year. Very important to carefully analyze these results, and for that, I will make some adjustments or comment to things that are one-off movement in this quarter to fully analyze the changes.

First of all, despite of the consolidation of the Trend and the Visual balance sheet, the same analysis we did last quarter is on the figures. So it's not a perfect comparison to Q1 last year. The other things that we still have a minor portion of advances to suppliers that was booked in June, but it was fully consumed in early July. And lastly, the effect related to the share buyback program that is in place this year and was known last year. So when we eliminate all of those mentioned effects, the cash consumption in the year-to-date would be closer to BRL 80 million or BRL 14 million better than last year figure, which was BRL 93 million.

So finally, some comments on working capital and return. Some comments on the main changes, the line of suppliers and advances to suppliers, line reflects basically, the higher balance of advances to suppliers that I just mentioned was consumed by beginning of last month. The prepaid expenses line was positively impacted by the cruises segment, which will only be accounted when the respective payments are made. The other net line was mainly impacted by the share buyback program. With that, our return on invested capital reached 26.2% in the last 12 months ended in June 30, 2018, an improvement of 100 basis points compared to March 31, 2018.

So that's all for now. I thank everyone for participating on our conference call. And now I'll turn to the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (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 {BIO 17914305 <GO>}

Okay. Once more, thank you very much for everybody, for your time. Company is proud to go through another quarter. It was very complicated quarter for the divested things (inaudible) happen. But despite of that, I think the resilience of the company, once more, proved that the company is going in a good shape.

Thank you very much. If you have any remarks and doubts, please contact to our Investor-related people, which are here to serve you. Thank you very much.

Operator

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

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