## **Q2 2019 Earnings Call**

## **Company Participants**

- Leopoldo Saboya, Administrative VP, CFO & IR Officer
- Luiz Fernando Fogaça, CEO, Administrative VP & Member of Board of Executive Officers
- Unidentified Speaker, Unknown

## Other Participants

- Luiz Felipe Poli Guanais, Research Analyst
- Marco Calvi, Research Analyst
- Olivia B. Petronilho, Analyst
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Robert Erick Ford Aguilar, MD in Equity Research
- Ruben Couto, Research Analyst

#### Presentation

### **Operator**

Good afternoon, ladies and gentlemen. Welcome to the Second Quarter results conference call of CVC. We have Mr. Luiz Fernando Fogaça, Chief Executive Officer; and Mr. Leopoldo Saboya, Chief Financial Officer and Investor Relations Officer here with us. This conference is being broadcast live. Go to www.cvc.com.br/ir, click on the webcast link 2Q 2019. Slides are available at our webcast platform. We have followed accounting practices in Brazil. They have been approved by the accounting committee.

Before we start, let me mention the forward-looking statements are based on the beliefs and assumptions to 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 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'll turn the conference over to Mr. Luiz Fernando Fogaça. You may begin now, sir.

## Luiz Fernando Fogaça

Good afternoon, everyone. We are pleased to start Q2 results of CVC. Let me start on Slide 4. This was indeed a very challenging quarter. There are no signs of improvement in

the macroeconomic scenario that impacts consumer confidence. In the case of tourism, more specifically, we've seen a very important player left the market with almost 15% market share. The offer was brought back to the levels we had five years ago. So there was a price spike, especially for trips taking place in the 60 to 90-day time frame. We had a 9% decrease in June and a record occupancy rate of almost 85%, especially in the low season. Some northeastern destinations were mostly affected, Salvador, Recife. And Fortaleza. There was a 20% drop in supply. Price increases were about 60%. That impacted tourism leisure that are more price-sensitive. There is an indication on the part of domestic airlines of boosting 30 aircraft to be concluded in the following -- or in the next 90 days. So that would boost offer as of the Fourth Quarter that may lead to stabilization of the market.

Market estimates indicate that once these additional aircraft are in operation, we would boost Fourth Quarter supply by 7% compared to the same period in 2018. In Q1 of 2020, that offer should be about 10% higher than Q1 of '19 -- 2019.

On the other hand, the corporate segment, more or less price-sensitive, benefited from the price increase at CVC Corp through Esferatur. And Advance captured that increase. Group boosted its bookings by 11% in the second half in Brazil.

CVC Corp's strategy to diversify its revenue sources allowed us to maintain our growth because these businesses are supplementary and they impact differently or they are impacted differently by the macroeconomic scenario. Our focus was in providing services to customers that had purchased tickets from Avianca in the Second Quarter. We have addressed over 90% of these cases, about 180,000 passengers. 75% of those cases, passengers chose to book another trip or to maintain that credit for future trips.

Our NPS stability at 84%, similar to the previous index before that economic turmoil, we feel confident because despite all the difficulties, we were able to provide excellent service to our customers. Of all these 100 million future departures that we had released early May, we had about 82 million already incurred. And we are estimating future costs for remaining or pending cases, they have already been recognized in Q2 results. When you add those to the recorded costs in Q1, that would amount to BRL 92 million.

On to Slide five now are the main results the company had. We had 2.3% growth in our reservations, 17% in our normalized EBITDA and 13.9% in our adjusted net income. Cash generation was BRL 209 million a seven days improvement of working capital and minus two days in pro forma as the acquisition of the Esferatur improves our working capital. Through very good expense control, we are almost flat when compared to the numbers of 2018.

(Stabilizing) 10%, we have maintained the same approval rates. But banks increased their approval rates. By improving our working capital, we have improved our ROI to 23%, (2) percentage points. We have reduced our debt even despite the acquisition of Esferatur in April. Argentina bookings -- Argentina showed signs of improvement. They have a flat dollar reservation when compared to 2018. And we keep on increasing our market share.

On to Slide six now. We have concluded yet another strategic planning cycle with the support of specialized consulting services. We focused on market behavior and the digitalization and trips, financial services and new sources of revenue. We have improved our team in certain areas to implement these initiatives as of the second half. As part of that process, we've conducted a survey with almost 2,800 consumers of every walks of life and every region of the country. Results indicate that CVC remains the leader in every social bracket at every age bracket with a very good margin as you can see on slide at the bottom -- on Slide 6, rather.

On to Slide 7. Let me talk about the acquisition we announced just last week. We have accepted a binding proposal from the Iberostar to acquire Almundo, including Argentinian and Brazilian operations. That would reinforce our strategy to expand internationally. We are going to digitalize our tourism platforms, providing a better on and off experience throughout the customer journey. This is a modern brand and highly regarded in the Argentinian market, a platform that is based on state-of-the-art technology providing the latest technology, a true omnichannel alternative. The Almundo platform in Brazil will be the basis of new platforms for Submarino Viagens. CVC Corp will double its presence in Argentina reaching a 16% market.

On to Slide 8. Let me talk about the digital deliveries. In the Second Quarter, we had an innovation marathon called Hackathon CVC. 27% -- 27 hours straight of implementation to provide an online product for exchange programs. We conducted the first digital data CVC Corp, delivered yet another digital product. The Android app (technical difficulty) including hotels and iOS, the aerial portion, a new hotel platform and a new aerial platform 10% penetration rate in the mobile is CVC. We have cross-selling on apps, such as insurance in iOS and also Android.

On to Slide 9. These are the quarter highlights for both Brazil and CVC Corp. Here, we had 11% growth in bookings, mostly from the corporate segment. Net income -- or net revenues were up 7% and an EBITDA increase of over 20%, it's been normalized, including one-off events that I've already mentioned. If we include Argentina in CVC Corp., we had less increase bookings because of that challenging situation. But we had similar growth in EBITDA and adjusted net income, including operations in Argentina.

On Slide 10, let me talk about the results of this semester. We had double-digit growth in every key indicator.

I will turn over to our CFO Mr. Leopoldo Saboya.

## Leopoldo Saboya (BIO 16137418 <GO>)

Thank you, Fogaça. Moving on, on our results. Let me just focus on results in Brazil. Let me start by detailing our revenue on the following slide. Our net revenue reached BRL 361 million, a BRL 3.5 million better than the previous year, a pro forma growth of 7%. Take rate of 10% in this semester is a drop of 70 bps in the quarter because of 3 main factors: number one, the growth of confirmed bookings mix in Submarino Viagens. These are units, as you know. They have a smaller take-rate percentage-wise. That accounted for 30

bps from those 70. At the same time, we had the one-off effect of Avianca, the estimated impact

(technical difficulty)

canceled due to delinquency of the portfolio. And finally, let me say that their own financing scheme at the bottom line, it's 5% in early 2018 and it's at 10% now. That reduced our margin as to the previous semester, it's at 10%. Let me just say that our approval rate has improved by 3% and CVC was #1, is 1.7% of those 10 points, which is our -- which is from our financial division when compared to the total sales.

As to the EBITDA composition, our normalized EBITDA at CVC Corp Brazil was BRL 126 million for the quarter. That means a 22% increase when compared to last year. Semester, that growth was 70%, reaching BRL 329 million of EBITDA in that period. The margin EBITDA was up 4.3percentage points. And let me point out that these results do not take into account the one-off effect of BRL 182 million of reimbursements.

Then comment applies to the next slide, that, in fact, it was not taken into account. In this Second Quarter, our adjusted net income was up 5.2% when compared to previous year. We have an increase in net financial expenses and more expenses was caused by the PPA that was allocated to an M&A prices, 7percentage points greater than that -- than last year, mostly because of the Argentinian companies because we did not have them last year. In Q1, pro forma growth was 1.9% (sic) (13.9%), reaching BRL 150 million.

On to the next slide, let me talk about Argentina. The first highlight is that despite that decrease, it's more than the market average. We had a market share gain in the intermediated tourism market. So despite the fall in bookings, let me say that losses remained almost stable in the first semester and the reservations for bookings for July are almost at the same level of July 2018 bookings. So market is getting back on track.

On the right, I would like to highlight the growth in local demand. Real is a strong currency, or even dollars. It's important to show you our performance in local currency, which is pesos. 45% bookings were up and EBITDA grew 32% in this period in Argentina.

So let me summarize all the results of CVC Corp. Let me just point out a couple of indicators. That's our normalized EBITDA performance for the semester. It reached the 17% mark as a whole for the group, which is a robust result, given the macroeconomic scenario that is challenging.

On the next slide, we have cash generation and working capital. These are very important indicators at this point in time. Let me first point out the operating cash generation of BRL 363 million for the semester, well above the numbers both 2018 and '17, as you can see on your left. For the semester, we have accrued BRL 209 million, BRL 159 million was our cash consumption and BRL 63 million in 2017. That performance was possible because of a good management of working capital.

We provide advances at are smaller degree. We have adjusted the management in Submarino Viagens. On your right, analyzing that 5 number of days and we've done that since 2017, the company has improved seven days between (technical difficulty) 2018 and the current quarter. Pro forma, that number would be an improvement of two days, an important improvement, nonetheless because business -- or businesses in Argentina that were not included in 2018, they both demand the same amount of working capital.

On to the indebtedness slide. Let me point out that we have reduced our leveraging by 0.26x the EBITDA when compared to the previous quarter. And we have elongated our debt profile with the issuing of debentures, as you can see on the chart on the right with the same cost practically we had before.

Financial expenses were up 23% in  $\Omega$ 2 2019, given less financial revenue because of those advances to smaller suppliers and also a higher average debt of about BRL 600 million, increasing as a consequence our debt service by BRL 8 million between these 2 quarters.

And finally, our ROIC, it improved by 3percentage points between Q1 and Q2. And as a result of the invested capital, it was reduced a little over BRL 333 million. That was the improvement in our working capital.

Having said that, let's move on to the Q&A session. Thank you.

### **Questions And Answers**

## **Operator**

(Operator Instructions) Ford Robert of America.

## Q - Robert Erick Ford Aguilar (BIO 1499021 <GO>)

Luiz Fogaça, why is it that you expect more pressure on the second semester of the year?

## A - Luiz Fernando Fogaça

We're talking about Avianca, it will be 45 now, basically because in Q2 structures haven't been completely captured. So the effects will be on the Q3 and Q4. And we'll have a bigger mix of Avianca in the second half of the year, especially in Q4.

## Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

What's your take on the long term? When do you think it will get back on track?

## A - Luiz Fernando Fogaça

That will depend on the mix and channels. When you look at it individually, they bought CVC within domestic and international segments. But in a high-volatility scenario for the

exchange rate, given the reduction in supply domestically, we have seen an increase, much bigger in the international. And we see growth in the corporate segment more than leisure. But the take rate is smaller there. When you look at the problem individually, we do not see major changes in companies and products. But the channel mix and the segment mix will fluctuate depending on external variables, which are very hard to predict.

### Q - Robert Erick Ford Aguilar (BIO 1499021 <GO>)

That was clear. About Almundo, it makes all the sense in the world. But how are you going to maintain your technical team with the Almundo platform? How long would that take to replace the CVC travel platform? What would be the new features you're thinking about -- you're considering implementing?

## A - Luiz Fernando Fogaça

As to the personnel, the land trip that is part of the book or the team deck we acquired, they also have a technology team. The Argentinian market is filled with good talent. Almundo started out as a startup. What we have to do in the next 90 days is due diligence that will take into account tax and accounting characteristics and at the same time, we will be analyzing the teams, the infrastructure and we are aiming at retaining or maintaining the top executives. And we believe that CVC Brazil is already a market leader, they have consolidated the market. So we attract talent.

In Argentina, we had 2 companies already among the top companies in the country. And we're now adding yet another leading company and it has a very B2C appeal, very technology intense -- intensive company. We have a group in Argentina that's almost BRL 1 billion, a very robust company with state-of-the-art technology, with very good market conditions. By combining all 3 companies in Argentina and the Brazilian headquarters, we have everything in our favor not only to maintain the teams we have there. But rather we will attract more talent to help us even face challenges in Brazil.

As to the platform per se, we have conducted a pre due diligence in these past 3, four months. We even hired a specialized company to conduct that kind of work. It's almost a plug-and-play solution just like we had Submarino Viagens. We had a website and app for the mobile world. And they also have the same kind of development. Almundo is also -- is already present. It's already operating in Brazil. They have all those tools available in Portuguese. The challenge in Brazil -- let me make it very clear, we are in a growing trend. We have 130 people in our digital team. But by mapping out the challenges we have ahead of us, we have an omnichannel strategy for the CVC. We'll have to bring that number up to 200 people. That will be a challenge to hire 60, 70 people in technology at a time in which it's very heated market. When you bring in 150 people from Argentina, we can join forces and allocate resources in Brazil, maybe to work for CVC.com.

We have just concluded a loyalty program with the Santander Bank. We'll have to have a dedicated team. And we are negotiating other strategies that will require dedicated teams. As to the CVC brand, which stands out, we believe we'll have to assess how or what are the features we have in Almundo platform that could eventually -- that could occasionally be used in Brazil. 100% of Submarino Viagens and 100% in the other 2 companies we already own in Argentina. We would be -- or would have to develop more

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modern systems trying to adapt we have in Brazil and other areas. But (RE) is already ready with solutions for the Argentinian consumer. It's a totally SAP-ready platform. By year's end, we'll be able to implement this platform to Ola and Bibam and also starting that challenge with Submarino Viagens that will be concluded probably in early 2020.

#### **Operator**

Ruben Couto from Santander would like to ask a question.

#### **Q - Ruben Couto** {BIO 20636571 <GO>}

Let me go back to the take rate. 45 for the second half and it's Avianca, right? As changes happened, you believe there would be any take-rate impacts in the other partners? Almost flat in the operational expenses, is it because of cuts?

# A - Luiz Fernando Fogaça

All right. The take rate, the impact in the market is price adjustments. We're always concerned about the commercial aspects, which is also valid. But what actually affects the market is the price shift. So when an airline changes its price list, let me put it simply, that would ripple through every seat on the plane, corporate and leisure alike. Since you have not enough supply, you end up not being able to allocate business travelers early in the day, later in the day and you end up filling an airplane during the day, which would be a leisure time, which is usually 50% to 60% occupancy rate. And business travelers are less sensitive to price. It doesn't make any sense to renegotiate with the airlines.

The 3 domestic airlines were very supportive to reaccommodate partners in April, mostly. They were reassigning passengers with -- at no cost than when we began to deal with customers at stores when they had to purchase new tickets so that they could get on a plane again. They provided us with a differentiated treatment. And that's why we have maintained that level at BRL 82 million instead of BRL 100 million in departures in the future. That we had a future departure worth BRL 100 million. We were very transparent. And we said that upfront. As to expenses, we still have a lot to do to capture synergies in systems, in the trend and even at Visual. These are companies that have been acquired for over a year. But we haven't concluded that integration cycle yet. In the case of Argentina, it hasn't even started. But it gives us more visibility.

We are looking at March and April, the scenario would be challenging. And we did our homework. The entire team was very committed and helped out. We have an initiative led by Leopoldo and PV. But that's not the main reason behind that impact because all these initiatives have been mapped out. We're beginning to capture them. There is a capturing curve that will rise towards the year's end. But we kept on doing what was strategic. We kept on hiring people for strategic positions that are directly connected to our growth strategy. We didn't buy anyone. And we kept on investing in our CapEx. But costs, when you look deep down at costs, of course, you can also optimize things. And we do have some initiatives that started out late last year to automate some of the processes in our service center. (Pineiro), our Operations Director, started out back in October. This is a longer project. They have resulted some good results. But there are still some

opportunities as of August to year's end and would start further next year different from that level we had in 2019.

#### **Operator**

Marco from Itað BBA would like to ask a question.

#### **Q - Marco Calvi** {BIO 19854632 <GO>}

I have 2 questions. First is about working capital. Looking at the pro forma and non-pro forma pictures -- when you look at the pro forma point of view, would it be flat year-on-year?

My second question. You explained the take-rate issue in the previous question. Those 45 bps take-rate effect is a calculation based on negotiation differences you may have with suppliers. Is it right that if all variables remain the same, is this something that will carry over to the next year?

### A - Unidentified Speaker

Marco, the calculation of Avianca's impact takes into account different rates. But it also takes into account how much was transferred to price or to margin. But you're right in your assumption. That level in the second half will be the next level for the first half of 2020. In other words, we would be starting with a take rate of one-off event that would be smaller than that of 2019. But on the other hand, as I have said before, we're starting next year at a more optimized expense level as a consequence of all these initiatives.

We have concluded the strategic planning cycle back in June. And we identified several revenue opportunities, segmentation, cross selling and B2B channel. These initiatives will help, not directly into the take rate. But additional sales costs optimization in our commercial department. In other words, we have mapped out several initiatives to help us mitigate this well-known take-rate effect.

Marco, let me address the first question you asked. If I understood your question correctly, you would like to know what would be the pro forma effect in the accounts receivable. The events you see in Q2 last year, we would have 78 pro forma days for Q2 2019. We would have an improvement of three days in accounts receivable. That would translate or that would top to the 97 that is pro forma for the Q2. Does that make sense?

# **Q - Marco Calvi** {BIO 19854632 <GO>}

Yes. It does.

## A - Unidentified Speaker

Let me talk about working capital. We have been talking to you for some time now. This year, we have a very clear target. The company as a whole understands that. And of course, when you introduce a new metric, that becomes a focus or everyone's focus. That weekly meeting we have, we discuss working capital for every business unit. That is

present in everyone's heads or minds, those that make decisions on a daily basis. We haven't implemented a couple of things that haven't been mapped, they would require systems, changes. These changes have been made, have been tested. But in a challenging economic environment. Because of less supply, we postponed that to the second half of the year. So that we wouldn't impact sales at all, no matter how small that impact would be, just like I said last week. These things that have effect -- that affected working capital and cash flow were one-off events. These problems no longer exist and that has helped us in the first half of the year and for the second half of the year. Once we start implementing those mapped-out strategies, that would help even more the company to generate more cash flow and working capital.

#### Operator

Olivia from JPMorgan would like to ask a question.

#### **Q - Olivia B. Petronilho** {BIO 19090195 <GO>}

Let me focus on the online business. Is there any particular business as the main driver for your online? And let me address the acquisition in Argentina, where would synergy come, especially when you take into account the online corporate segment in Brazil?

## A - Unidentified Speaker

Let me try to address your question. I couldn't hear your question completely. What helped us the most in bookings was the corporate segment and within that segment, RexturAdvance, which would be the eldest son that joined the company in 2015, we have concluded that cycle, that maturing cycle. It had already a robust B2B platform. That was the reason, the main driver for that acquisition. You have a team that has been performing well for quite some time. And that helped us improve our average ticket in the corporate segment.

We have growth, not at the same level. But still growth from Esferatur. And these are supplementary. One is stronger in domestic, the other one is stronger in the international flight. And we have Rextur, a very robust system that has already been implemented at Esferatur, maybe kicking that off in September. Once we have that new system in effect, Esferatur, we'll be making reservations more easily. We'll be finding best tariff prices with no human intervention.

The online business in Brazil, small operation. But it has a significant growth. Livelo has shown interesting rates. In Argentina now, the highlight would be our recent acquisitions. Two companies, we're beginning to start to work with them. We have just implemented a new matrix structure in Argentina that happened two months ago. The systems are still different. But we're still negotiating with trade partners to improve those conditions for both companies. Very often, these conditions can be captured. But they will require changes in the system so that we can offer a dynamic package that consumers can see the total price, they know it's cheaper. And there is no conflict with the revenue management strategy on the part of airlines.

With Almundo, which has better take rates, they already have that dynamic package. They are doing this for quite some time now. They do have physical stores. They interact with consumers from end-to-end. And also, because they already developed a system for franchisees, for resellers, they already give out rate conversions and prices in total. We understand that a single platform that can capture all the potential of products and it can connect all the best deals when you bring in 3 highly technical teams from Argentina.

#### **Q - Olivia B. Petronilho** {BIO 19090195 <GO>}

Would then have a profitable platform in Argentina and the economic situation?

### A - Unidentified Speaker

For once, the economic situation improves there.

#### **Q - Olivia B. Petronilho** {BIO 19090195 <GO>}

What about online in Brazil? Are there any of the 3 businesses that would stand out, Submarino, Livelo or CVC.com? Would that growth be homogeneous? Or would one of them stand out?

## A - Luiz Fernando Fogaça

At this point in time, CVC.com grows the least because it has the oldest platform, both through the app side or the app itself. We're always introducing things that we develop because we have a strategic partner there. They have placed all their bets on our platform and our content. We've started every development there at that brand. That's why performance has been very good. For Submarino, which we have more freedom for the brand to take risks, to learn more. And at CVC, it's an omnichannel. Consumers survey using the app, the mobile or the desktop. But in the end, they end up purchasing their package at the store. We can't measure that. We're starting several initiatives in that sense. One of them, I've already talked about. Let me point that out.

About 1.5 months ago, we hired a very internationally recognized company to put together a single and structured database for all our company. It's a long-term project, of course. But by year's end, you would have a single database with a single customer code. And then we would be able -- well, that lead was generated at a store, at a mobile, at an app or at store, we would then be able to track that lead throughout that customer experience. And from that kind of information, from that point on, we would be able to detect behavioral trends. So that we could provide or design a more customized product. At CVC, we've already conducted that discussion.

What would the customer journey be connecting the dots between the digital and the physical worlds? We have that mapped out. We have the time line. We have -- we know what the investments are. And we are putting together a team. We're beginning to deliver that end now in the second half of the year.

We'll have that dynamic budget concluded by year's end. It works for a store today. We do some kind of survey for an air ticket, if you reduce their price, send and notify to the

franchisee to inform their customers. The second step, once you have a tool in mobile or in the app, you can inform customers directly. And we also inform the salesperson that can also interact and provide new services and we will be connecting both worlds. And let me remind you that once the sales rep starts the interaction, we are going to guarantee their commission, no matter how it ends.

#### Operator

Luiz Felipe from BTG Pactual asks the following question.

#### Q - Luiz Felipe Poli Guanais (BIO 19933939 <GO>)

Actually, I have 2 questions. The first one is about the owner's desk. How would the owner's desk be involved because the banks have more appetite for credit (proneness). So to speak? And my second question is about e-commerce. What initiatives do you have in the pipeline to maintain traffic within the platform?

# A - Luiz Fernando Fogaça

Let me start with the second part of your question. We have several initiatives, including digital marketing. We have a digital marketing team, a new team dedicated by brand, one for CVC, one for Submarino. Last year, we replaced our CVC agency. We've already modernized our communication strategy. Last year, we had 2% to 3% investments in marketing digital. Today, we are at 16%, 17% in the first half of the year. And we'll be investing over 20% in the year. When you move on to the digital world with more information, you can be more assertive and investments are more productive. Database will be very relevant so that we can have a more dedicated offer based on history information and behavioral information. Of course, these ideas have to mature.

In the case of e-commerce, just like I said a while ago, it doesn't matter where the sales tax price is seated. It's online or off-line, it doesn't make any difference. We have to be present, no matter what, at every step of the way in the consumers' journey. Not even when they purchase it, the trip starts when they begin to plan that trip. They search the Internet. And we want to be -- or we will be present at every directional point with CVC or Submarino or the Almundo brands, including the sales process. And also, during the trip, we'll have an app available to give that consumer travel tips so they can buy concert tickets or transportation. And when they come back, how we can help consumers share that travel experience. Friends and relatives, everyone loves to share those moments. There are several things we have mapped out and we are already working on it. We are hiring people that are highly experienced to help us out in that sense. Over to Leopoldo.

## A - Leopoldo Saboya (BIO 16137418 <GO>)

We've already said before time and time, again, that we're concerned about our desk from 5 to 9, 10. We'd like to be aggressive to try to offset macroeconomic problems. And then we would be more risky in terms of credit concession. And again, once you provide an extra offer, if it's an incremental sale, we make that available with the credit score that we believe is appropriate, that can help us get not only incrementally sales. But a profitable one. Banks on their part have their own strategy. And we respect them. And they adjust their credit policies. At a point in time, it was reduced. And we had to do more

on our part. And we had to -- not only because we were more aggressive. But because of the change in the bank policy. As a sales percentage, that number will increase.

In Q1 results, we could go even to 15%, not as a target. But we knew that it was everybody's concern given the nature of the operation, we have an implicit risk. But never go beyond 15%. We were at 10%, 11%. which we're beginning to make that first approval. It's not our core business. We just want that to have an alternative and to have market costs at the first approval, that would be a max -- or a maximum, not a goal. Maybe it was regarded as an objective. And there was some noise in Q2. As you can see, now it was not -- it didn't go to 15%. It went down to 10%, not because we increased our rigor. We have maintained our score, our policies. But banks, on their part, when they improve their approval rates, financial team conducts regular meetings with partners to improve the quality of the information. They've approved more. So that helps us in turn. It's a self-adjusting cycle.

## A - Luiz Fernando Fogaça

Are we going to approve less in the future? No. Whatever, we believe it's good credit policy. If we maintain minimum profitability, we'll keep on doing the same thing.

#### A - Leopoldo Saboya (BIO 16137418 <GO>)

I think Fogaça has already covered or has already answered your question. But let me add to his answer. The first thing we did was, we wanted to have an internal financial company with very -- with a lot of rigor, a lot of internal controls. And that's our main focus for the team so that we can perform the buffering role. The activity performed by our partners could take place as smoothly as possible.

This would be more of a financial services mission rather than a financial services desk. That's part of our strategic planning. That's one of the highlights, one of the decisions. This is a very good opportunity. It has to do with credit cards with partner banks, other themes of payment. We're looking at this issue not only from the financial division per se. It's not going to be a replacement of other means of payment. But a more expanded profile of financial services, which is part of our strategy.

## **Operator**

Richard from Bradesco asks the last question.

## Q - Richard M. Cathcart {BIO 16457807 <GO>}

My question is the demand in stores. Of course, the Avianca provided a negative impact. There was less flow and less competition in the quarter. Can you help us understand what was the main driver behind that impact? Are you improving your conversion rates towards the end of the quarter, more specifically, in June?

## A - Unidentified Speaker

Richard, you are right. There are 2 effects in stores in Q2. The number one problem was not conversion, it was flow. There were some fluctuations in conversion rates. But we had major flow drops. But we have boosted our marketing campaign, resorting to the model that traveling is good for your health that provided another alternative that helped us bring in new blood in late June. Everything we see about the economic scenario, unemployment rates are still high, the industry is not growing, combined with higher prices, consumers of leisure travel keep on searching the net. They resort to online activities. If prices are high, they don't travel. We have been offering promotions. But that may pick up once prices come down to the levels we had in late Q1.

#### **Q - Richard M. Cathcart** {BIO 16457807 <GO>}

Let me just ask a follow-up question. The chart on Page seven about the gross and net bookings growth. In Q3, have smaller reimbursements and cancellations that would impact positively bookings. Is that right? Or didn't I understand that properly?

### A - Unidentified Speaker

Yes. These are 2 things that are connected. One is to show not the number, per se, from 2% to 10%. We wanted to give you a visibility of the magnitude of cancellations. Reduced sales, reduced flow, prices are higher, the economy is not helping. When they come to the store, they cancel. And they don't rebook it. They just maintain the credit. That can be accounted as a new sale, once they confirm their new destination. So there's a very strong impact in May and June and still in July, which you cannot see yet. But as of September, we would have cancellation levels similar to those we have seen up until March, which is a very stable level. There were no major changes in there.

## Q - Richard M. Cathcart {BIO 16457807 <GO>}

Actually just a final question. Guidance of the Avianca impact in the second half. Let me just double check. Is it 45% or bps, basis points for Brazil?

## A - Unidentified Speaker

Yes. It is Brazil consolidated because the impact happened in Rextur, Submarino and CVC.

## Operator

(Operator Instructions) Ruben Couto from Santander.

## **Q - Ruben Couto** {BIO 20636571 <GO>}

Question is about the financial services block. What's the number?

## A - Leopoldo Saboya (BIO 16137418 <GO>)

BRL 42 million in the second half.

## **Q - Ruben Couto** {BIO 20636571 <GO>}

Financial expenses?

### A - Unidentified Speaker

Just a second. It's credit card receivables.

#### **Q - Ruben Couto** {BIO 20636571 <GO>}

Should be with the debt services expense.

### A - Unidentified Speaker

I think it was separated.

#### **Operator**

(Operator Instructions) I'll turn over to Mr. Fogaça for his final remarks.

# A - Luiz Fernando Fogaça

Thank you, once again, for attending this results conference. Leopoldo, our IR team, Pedro, we have just hired our new RI. I think you've met him before. Victor Luquini, he's starting on Monday. There will be a transition phase with Pedro and Henrique. They have been doing a fantastic job in our IR department. They have very good things in the company. We are bringing in reinforcements for strategic sales. One of them is IR, Victor Luquini, a very talented professional. He will be 100% dedicated to IR. Rest assured that Pedro and Henrique remain in our team. They will be taking over new challenges. Thank you, once again.

## **Operator**

This concludes today's CVC Second Quarter 2019 results. Thank you. Good afternoon.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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