

## Y 2019 Earnings Call

### Company Participants

- Leonel Dias de Andrade Neto, Chief Executive Officer
- Mauricio Teles Montilha, Chief Financial and Investor Relations Officer

### Other Participants

- Luis Eduardo, Analyst
- Olivia Petronilho, Analyst

### Presentation

#### Operator

(Starts Abruptly) being broadcast simultaneously over the Internet via webcast, which can be accessed at [www.cvc.com.br/ir](http://www.cvc.com.br/ir) by clicking on the link Fourth Quarter 2019. The presentation slides are available for download through the webcast platform. The information is available in BRL and have been prepared in accordance with accounting practices adopted in Brazil based on the statements, guidelines and interpretations issued by the accounting standard CPC.

Before starting, we would like to mention that forward-looking statements during this conference call regarding CVC's business prospects, projections and operational and financial goals are based on beliefs and assumptions of the company's management, as well as information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, conditions of the industry and other operating factors may affect CVC's future performance and may lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to give the floor to Mr. Leonel, who will begin the presentation. Mr. Leonel, good morning. Thank you for the opportunity. You have the floor now.

#### **Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

Good morning to everyone. It's a pleasure to be here with you. Thank you for participating in our conference call. This is our first earnings conference call within our management. As you know, I've been managing the company since April, Mauricio Montilha, that is with me, has been in the company, a couple of months more than myself, and we are regulating a number of things and we are here to show you the closing of 2019. And this has been a challenge for a number of points that I will mention. But I will be very brief in my

presentation, so that Mauricio Montilha can do the same. And then we will have a Q&A session. And in order -- and we will be very transparent here.

Now obviously, we have our Company today, the leading company in Brazil, but we have a good scale in Argentina where we are the second player when we join all of our businesses. This company is 100% operational. All our business and our people structure and the technologic operating structures are working, nothing was affected by the pandemic. Therefore, today we have no problems for the resumption of our activities or the investment is maintained, our competitiveness, our relationship with partners, our structure, our people are 100% operational which is very positive when we consider the challenges that we are facing. Throughout the initial months we focused strongly in maintaining, working operational team. We had to change some people, these changes took place. But by and large, I believe that we are very sound and we have hired in the past four months, 34 executives for the company that have come from different companies of the Brazilian markets, some are companies that are financial companies, some are tourism companies.

So we have a great diversity of personnel in the company. And there's one or two people from the same sector. So we have strongly invested so that the company can create a new culture not only connected to control the compliance, but also connected to competitiveness and so that we are able to have a new model of operational intelligence focused on our customer, creating and strongly investing in people and CRM structures, intelligence for customers. This is a new view of the company. We're strongly focused in technology, the digit -- and the digital world and adding much more competitiveness. Our focus has been to improve significantly our competitiveness and our operational efficiency and looking for the synergy amongst the businesses that were acquired in the past years. And these businesses took CVC to upper level of competitiveness. We are present in all the tourism segments where we want to be. We are leaders in Brazil in consolidation in B2B. We already have a strong presence on the online market, the OTA in Argentina, Brazil.

In Argentina, we have three companies, all of them are very competitive, two of them in the -- in leisure distribution business and one in the B2B market, that is Ola. So with this, in Brazil, we also have an exchange company, that is an experiment, everything was acquired in the past years, and it hasn't been duly integrated, but it is in advanced stage of the integration. We restructured and we significantly diminished the amount of Executive Directors, unifying business like B2B. Now in Brazil, we have five companies that are being integrated starting by one only management and this is resulting in high operational gains and synergy that will give us a significant cost reduction and even more important, we will be able to unify all of our platforms. And we will have a great day on the operational side, because we still operate with a lot of manual processes in our back offices. And this is our priority from the efficiency gain point of view.

We are also developing a number of plans. We hired McKinsey as a company that is revisiting 100% of our strategic plan, building a plan for the upcoming years. And we want to have 100% of the company on the same page, including Board and management and we want to have a priority plan and we want this plan to be unified. We've also hired other consulting companies, a brand consultancy company. Today, we work with 10 brands and a

number of sub-brands and the idea has been on the strategic plan that we're building. At the end, we want to have a brand architecture with a significant reduction in the way we communicate and exploring this gain of synergy and because we have strong and consolidated brands. We are top of mind brand in Brazil and we have to gain more highlight and we have to give more space to the other brands on online and on B2B.

In addition to this, we also are working with an external consultancy company supporting us in the system architecture, infrastructure, technology and operating processes. We established a plan that is called technology transformation plan and we want the company with this. So at the end of the strategic plan of McKinsey, we want to have a established plan for the operating future of the company. We want to have great gains in our ability to compete in the digital world in a sustainable way. And then operating gains in processes, eliminating throughout the upcoming periods, any type of manual work because we want to have high capacity, and high operational capacity based on process digitalization for customers or back office. I believe that the company despite all -- we have reviewed all the figures and Mauricio will present this. We're 100% operational and with high ability to generate value to our shareholders, because we continue being the most profitable company in the sector and with better operational margin and we want to maintain this and to broaden all of our businesses.

The pandemic obviously is an additional challenge that we're facing, but the effects are diminishing. We reached in the peak of the pandemic, in the month of April with negative sales. The tourism sector was the sector that was hit most strongly. Our sales were negative. And now our sales are 30% of what they were a year ago. Now the average ticket significantly dropped, we operate with average tickets that are 40% lower than last year. This is the greatest challenge of airlines and hotels. So we are reaching a level of 30% of revenue. Now this means that 45% -- 45% to 50% of customers that we had like last year. The market is recovering, the figures are increasing. We have 1,200 CVC stores operating on a -- 1,400 most of them are not operating because there are restrictions in certain places. And now we have 100 stores that have been closed and probably will not resume their activities. At the end of the year, I believe we will have around 1,200 operational stores. We would have -- we want to highlight that good important stores, the ones that sell most are open.

Therefore, if we finish the year with 10%, 12% lower in terms of physical distribution, this just represents 3% or 4% drop in volumes. And as the competition is smaller, we believe that at the end of the year, we have a gain of scale or a gain of market share that will be strong in all of our businesses. The market already knows that CVC will continue working and operational, we have increased the agreements with airlines and hotels and the resumption will start in the domestic market and this will benefit us a lot because we are the biggest company in operation in Brazil.

Now I would like to give the floor to Mauricio Montilha, so he can talk about figures, and I will be here waiting for your questions. And highlighting that I'm very reassured regarding our future and the potential of growth of our business and we will be -- we are already a major player in this industry. So I will give the floor to Mauricio. And then I will be open for the Q&A session.

## Mauricio Teles Montilha {BIO 18725719 <GO>}

Thank you, Leonel. Good morning to everyone. This is my first meeting with you. For those that are in the webcast, I'm on Page 11 of the presentation. This is an important moment, as Leonel said, we have to be strongly focused on building the future of the Company. And I believe that this meeting will allow us to have a good foundation. And you can see where we have started and transparently, we will show you what we're doing. Regarding this page, there are two relevant points. One, was the review of the accounting statements of the last years, where we confirmed and they are reflected in our figures and broadly announced three of the last interactions that we had. An important point is that Avianca, that was the pending issue since the last quarter.

Now we had closure during the last quarter, there are BRL8.5 million in costs. And the lawsuits are practically over. So we -- this represents BRL15 million or around BRL23 million. This is below what we expected during the last quarter of 2019. This is a closed issue. We have no more pending issues with Avianca, regarding COVID, regarding the pandemic. And I believe that we have always updated the market what is important, is that we've been strong in our actions. We are working. We are operational, strongly focused on rescheduling and servicing our customers so they can start traveling again. The impacts are also known by all of you. Some are accounting impacts, because of the uncertainties of the upcoming quarters. We -- and the Company continues materializing its working capital. Since the beginning of COVID, we financed most of the travels that we sold. And this working capital is strongly protected by rates, by credit. And our working capital is turning into cash and the liquidity of the Company is increasing. And this reassures us to honor the contracts for the future. And in addition to this, we also had our first stage of the gain of capital that is increasing the liquidity of the company.

Now speaking more about results, I would like to introduce -- with the feedbacks that we received from investors and stakeholders, we will report the Company's results in a bit more open fashion with three groups. One is in Argentina and Brazil. And in Brazil, we will report with two B2C, B2B units. In B2C, the traditional CVC Brasil, CVC.com, Submarino Viagens, Al mundo, Experimento, Al mundo Brasil, that is a small Brazilian company and B2B our consolidation businesses, Esferatur, Trend, Visual, VHC and RexturAdvance, and in -- and Argentina. And as we operate, we will have a more transparent relationship with the market and to help those that are interested in our company to receive more information in the adequate time so they can make the right decisions.

Now regarding the fourth quarter in Chart number 15, it is important to highlight that the company had a year, that was very good despite all of the challenges of last year. The fourth quarter of course demonstrates our reserves and it shows that we still had a very important level regardless the oil spill in the Northeast but we also had an important deterioration in our net revenue because of prices mainly what we saw during the last quarter, and a bit of the mix. Once our B2B grew more than the B2C, and it has the take rate that is lower. The take rate of B2C was strongly impacted by the costs that were in transfer to the suppliers and some accounting adjustments that we mentioned that also impacted the revenue was recognized in the quarter. It is an quarter despite all the difficulties last year. Nonetheless, the conversion of all of these bookings in net revenue was damaged or affected by the price drop that we saw and also because the adjustments that were recognized in the Company's margins.

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Now regarding expenses. We will see our EBITDA. We have been growing above the growth of bookings and above the growth especially of the net revenue. We had an important increase in expenses. We had an increase of lawsuits, civil lawsuits that increased cost and some increase in structured costs that hadn't been followed by the increase of sales. And as Leonel said, we have a major opportunity because of the synergy of all of our companies. And in 2019 this synergy hadn't been captured significantly in terms of organizational structure.

Now on the next page. Now financing through the CVC portfolio, it reached -- it's stabilized in 8%, basically. This is the total. This is an area that we are analyzing strongly because of the increase of default. That's something that we already observed last year. Now the post-COVID era, this will be very important to guarantee sales with quality of the company. Now the EBITDA of CVC Brasil, mainly because of the drop in the take rate revenue that was strongly impacted in CVC leisure because of the drop in prices and also the recognition of costs that hadn't been recognized in our accounting, well this strongly suffered during this quarter. Although the year, we see that the EBITDA was 30% vis-a-vis the last year, and the quarter was pressured by lower revenues and costs that had a lower run rate. Now talking about the net income, EBITDA is the greatest component of this figure. And we had greater financial expenses because we carried out a number of acquisitions throughout the year that still do not contribute with the net income of the company.

Now talking about the fourth quarter of 2019 in Argentina, we can see that in terms of reserve, we grew significantly. Now, of course, during the last quarter we were strongly impacted because there were purchases in advance because of taxes that the government fixed for traveling. Therefore, this helped us, the bookings, because people are booking in advance. And this -- now the operational result still in Argentina is negative because of higher operating costs than what were planned. Although there was an important reversal regarding the net revenue because after the acquisition, the capital structure of these companies where we restructured and they had -- they were -- they had financial resources much lower than what they had in the past.

Now Argentina in the year -- and the breakeven point in terms of EBITDA and also was breakeven regarding net income during the entire period. Now just to comment about the total results of the company. The -- it was strongly affected. The curve is very similar to CVC Brasil because Argentina reached a breakeven point in EBITDA and net income. And what we can see here is a year and the fourth quarter in terms of reserves with a slight increase. This is a year, well these isn't transferred to the revenue because of the take rate of leisure in Brazil.

Now finally, I would like to talk about cash generation. 2018, we had a negative cash generation of BRL78 million. In 2019, although there was a certain depreciation or lower performance of the cash generation from the operation due to the EBITDA, we did not advance -- make advancements to suppliers like in the case of Avianca of 2018. And this generated a great -- a positive cash flow. So we did -- so we took the benefit in 2019, which is one of the main aspects that reduced our working capital in the year.

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And finally, the company's indebtedness is stable. It of course, it increased at the end of the quarter with the acquisition of Al mundo. We had a loan from Citibank and a slight maturity that was for 2020, and it was renegotiated as of June of 2020. So it is more adequate to the project. As Leonel said, we had -- we have debts maturing at the end of the year, and we are undergoing a process of reviewing these contracts with the creditors so we can negotiate these debt and roll over these debts for the future. Now the return of the invested capital of the company of -- it is 18% despite that we've had a difficult year. This shows the resilience of our business. We are asset-light and most of our assets are guaranteed. And this is something that has demonstrated how strong we are during the pandemic. And we've been able to organize the company in order to leverage our future.

So I will give the floor back to Leonel and then I will answer questions or any questions that may emerge.

**Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

Thank you very much, Montilha. I think we can go straight to the questions. So should you have questions, we're here to answer them.

## Questions And Answers

### Operator

So now we will have a Q&A session. (Operator Instructions) We already have a question here from Olivia from JPMorgan.

**A - Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

Olivia, good morning.

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

Good morning. Thank you for taking my question. I believe that your points were very clear. We wanted to see what you expect for 2020, 2021. If you could elaborate on what you expect in terms of market recovery both on the leisure side and the corporate side. And the second question regarding credit. How -- what changed in credit? How -- what is the approval rate in terms of credit?

**A - Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

Olivia, this is Leonel. Thank you for your question. A very brief view of 2020, 2021. We basically worked in the leisure business. If the domestic market starts resuming, we believe that by the end of the year, we will have around the last -- I'm talking about the last days of the year, so the third quarter, with 50% of what we had last year. And obviously, at the end of the year, the air companies and the hotels are already talking about 70% in terms of amount of people. So we certainly will be at that level now when you see the Brazilian domestic market and you just focus on the leisure market. Now the international market, it doesn't open this year. If it resumes, it will resume at a very, very -- at very low numbers. We're talking about leisure, international leisure. We do not have

major perspectives for this year. We believe that it will start increasing a little bit by the next year. If there is a vaccine, if there is strong medical progress, perhaps in the middle of the next year, the market will be at 50% of what we saw in a normal year of 2019. So we only believe that the international leisure market will resume strongly in 2022. It will start increasing in 2021. And at the end of 2021, it will be 70% of what we saw in 2019 and then 2022 will be the same.

Now the corporate market, it takes a long time because you will only have very specific business travel and operational trips. The companies have their maintenance area, and there are people that have to travel to service. This starts resuming little by little. What really affects the corporate market are major events, trade shows, and we will only see this as of the second semester of next year. And we have to remember that domestic market is the most relevant market for us. So we believe that we will benefit ourselves because we are the best and the biggest company of the domestic market. And as we have a good physical infrastructure in all Brazil, with very consolidated agreements with all of our trades, this benefits us. But we only believe -- we believe that CVC will be at the same level of 2019 and 2022 because we still don't know how the competitors are going to behave. But we believe that by the end of 2022, we will be at the same place of 2019. And in 2023, we will be bigger than what we have been.

Now this is -- these are our assumptions. But with this conservative view, we are operating. And in a certain way, we have been positively surprised by our view because our plan is extremely conservative. And our businesses are resuming rapidly, especially in Brazil. As I said, the last week of August showed us figures of 30% when compared to the last year. We thought that we would only see these figures in October. And as we also have a strong culture of scheduling not very in advance, so we believe that we will see more growth in October and November. This is the domestic market.

Now regarding credit approvals. Perhaps Montilha can help me, but I would like to highlight that throughout the company, and in all the areas of the company, there is no area of the company, no business that has been changing a lot and has been honing its procedures. It has been improving its investment. Everything is being changed. Now in the credit area, we have changed our management, and we just went through a deep dive in the business. We control 100% of this information. This operation touches all business including B2B today, with a more dedicated management to efficiency. And we have no short-term approval activities. All the agreements of the banks are ongoing. We're working with three institutions, all of them operating normally. Therefore, I believe that this is not an issue. I believe that as soon as the market resumes, the credit area will be even more competitive, and perhaps we'll have more importance. But we're totally prepared.

If Montilha would like to add something and provide us with more data, please.

#### **A - Mauricio Teles Montilha {BIO 18725719 <GO>}**

Just an additional comment to cover some points. The market was living a moment of default. Our strongest case was -- now COVID also has brought this challenge in the lowest credit scores where we've implemented measures for the scores of lower risk, so they have to give a higher upfront payment so people can still buy. But as we are just

starting to sell, we can really say that. I'd say about the volume. Of course, the -- there are lower volumes of credit because now we have more default in the market. We have more people that have their names in the credit blacklist. But by and large, we are focusing on the quality of our sales and guaranteeing the purchase so they could -- but giving a greater upfront in order to reduce our risk to default.

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

Thank you very much.

## Operator

(Operator Instructions) Our next question from Luis Eduardo from Santander Private.

**Q - Luis Eduardo** {BIO 19857681 <GO>}

Good morning. Good morning, Leonel and Montilha for your presentation. My -- the first question is the operational side of the company. So the company spent this entire year generating cash because the traveling was paralyzed, be it in the domestic or international market. And then you became cash generators. From this point of view, I would like to better understand. I don't know if you have your figures. What kind of working capital need do you have for this resumption that starts now or during the first two or the next two, three quarters, that would be the last two quarters of this year and the first quarter of next year? And then I want to see the liability of the company, the debt of the company that has a strong maturity value during the third quarter. How are you dealing with your maturity dates together with the creditors? And how do you plan? What is your view regarding the size of the financial liability that the company should have for a market that in the upcoming two years will be smaller than in 2019 when the company had the size that it had at the end of last year?

**A - Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

Montilha, could you answer this question, please?

**A - Mauricio Teles Montilha** {BIO 18725719 <GO>}

Yes, of course. Thank you for your question. Two points here. The company's working capital is sufficient to meet all of its contracts and to survive in the middle of the pandemic. So we are highly equalized to survive. And as we have been able to see, once these new laws were approved, CVC and the segment is reassured to reschedule and to -- and now that our customers will not lose their trip. So our cash flow, our initial cash flow, we understand we underwent a process. And as we reduced the fixed cost, this was enough to cover the company's costs during this period. Now the increase of capital, that was very successful. It's BRL295 million. It's -- so we only have BRL5 million from here. It will provide capital to the company so we can sell and scale. Therefore, it was outlined this way. We have one for now, one in the beginning of the year, and this is when we thought that we would have a resumption of sales. From the financial point of view, we believe that with the quality of the initial working capital that we have, that is protected. And with the increase of capital, the company is prepared to grow in terms of sales.



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Now regarding our debt structure, I would say the following. We do not see our debt structure in the short term. We see it at the long term. Now when we think that -- Leonel said that this tourism market could be -- could go back to the levels of 2019, during 2022 and 2023, depending really -- depending relevant medical developments. We don't believe that the situation will not be different in terms of debt. Of course, the debt will evolve. We are not looking at this thinking about the next two, three years. We're thinking about the next five years. And we have third-party that -- and this is totally manageable, and we are discussing with our creditors. We've been doing this, we want to roll over the step because the EBITDA and EBITDA curves will be different. But we don't believe that the size of the debt will be different, thinking in the mid and long run.

**Q - Luis Eduardo** {BIO 19857681 <GO>}

Thank you very much.

## Operator

(Operator Instructions) As we have no further questions, we would like to give the floor back to Mr. Leonel for his final comments. Mr. Leonel?

**A - Leonel Dias de Andrade Neto** {BIO 17974731 <GO>}

So thank you and I thank all of you for your participation. And I would like to highlight a number of points. As it was mentioned, the company is 100% operational, and we are investing in points that we believe are very important for the future. Number one would be we are building a new vision of client pricing, analyzing the millions of customers that buy from us. And even those that don't buy from us, we're creating a data like with heavy investments in CRM and data science and will, at the end, result in the dynamic vision -- dynamic pricing vision of the company. And this is of utmost importance, to have a more efficient and cheaper operation, we end with better relationship with our customers. And we do have a number of sources of customers that is a great competitive advantage because our -- we have a good distribution, be it through our own distribution with our own brand or through our great B2B presence. We operate with over 10,000 agencies that bring us significant numbers of relationship with the consumers.

We are also strongly investing, and we believe in our gains in the B2B market because all of -- because the pandemic placed us in a more advantageous position. In terms of advantages, we have more efficiencies, and we are benefiting ourselves from our competitive advantage because despite the crisis and the pandemic, we continue 100% operation with credits and credibility to operate in the market. And we have strongly invested on our online platform that in Brazil is represented by Submarino Viagens. But this platform is being -- we are investing significantly in the improvement of performance. The digital platform is our priority to the unification and the gain with the platforms that were acquired and our will to build more tourism model that works through omnichannel because we are sovereign in the distribution. We had no drop of investments in the digital platform. And then as of the next weeks and months, you will see substantial gains in this business, closing all the gaps that we have regarding the competition.

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I would like to highlight that a number of things are online like the dynamic budget, online, real-time, in our stores. So our client that goes inside the store and they have a link and they can follow their budgets and they can close this at a distant -- their trips. This was something that was based on manual transactions. And I would like to highlight that all the revisions of our structure in order to create a compliance, internal auditing areas of controls, because with this, we want to show a market, including shareholders, insurance, our internal commitment toward an upgrade, an improvement in our controls so that we can reassure everyone so that we have no surprises in the middle of our businesses.

So I thank all of you. The new management of the company is 100% focused to build the future and highly optimistic regarding the ability that we have not only for being here but to continue leading the tourism sector in Latin America. So thank you very much to all of you. And we are at your disposal at any time, so you can contact our Investor Relations department. Thank you very much and good morning.

## Operator

So the earnings result of the fourth quarter of 2019 of CVC has come to an end. We would like to thank all of you for your participation and have an excellent afternoon.

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