Q3 2019 Earnings Call

Company Participants

- Luiz Fernando FogaÃ§a, CEO, Administrative VP & Member of Board of Executive Officers
- Vitor Alaga Pini, Director of IR

Other Participants

- Helena Villares, Analyst
- Luiz Felipe Poli Guanais, Research Analyst
- Olivia B. Petronilho, Analyst
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome everyone to CVC's Third Quarter 2019 Results Conference Call. Today with us, we have Mr. Luiz Fernando FogaÃ§a, Chief Executive Officer and Interim Chief Financial Officer and Investor Relations Officer. Today's live webcast and earnings release may be accessed through the CVC website at www.cvc.com.br/ir. We would like to inform you that this event is recorded. (Operator Instructions) All these slides are available in the webcast platform. Informations are available in reais and they weren't prepared according to the accounting practices adopted in Brazil, based in the guidelines and interpretations done by the accounting committee at CVC.

Before we start, we would like to mention that the statements are based on the beliefs and assumptions of CVC management and all information currently available to the company. There are also information that is currently available. Future considerations are not an assurance of performance. They involve risks and uncertainties because they are connected to future events and they depend on circumstances that might or not happen. It's important to understand that general economic situations, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I'd like to turn the conference over to Mr. Luiz Fernando FogaÃ§a. He will begin the presentation. You can start, Mr. FogaÃ§a.

Luiz Fernando FogaÃ§a

Good afternoon, everyone. I am very pleased to start this conference here to talk about the results of the Third Quarter of CVC Corp. Regarding our schedule. We're going to talk about the Third Quarter results, Brazil, Argentina and also consolidated results. And after the presentation, we will open for a Q&A session.

So now let's move on to Slide four in the presentation, please. Here, we see the operation and financial highlights of this quarter. We are starting with the operational highlights. This is the ninth consecutive year that we were a top of mind company in our industry, 21% of brand recall of the CVC brand. The leisure segment was once again impacted by the increase in prices in air tickets. And more recently, by the oil spill events that took place in some beaches in the northeast of our country. Due to this scenario into a more aggressive competition, we repositioned our prices of domestic and international traveling packages. But we still have the corporate segment that is still with a very positive performance. And we see a double-digit growth in that area.

Another highlight that follows on the success we are having with Livelo was the beginning of a new partnership with a loyalty program from Santander. It's called the Esfera program. From a financial point of view, we had an additional impact connected to the Avianca event. It represented BRL 45 million in the Third Quarter. This is connected to expenses to reschedule tickets, refunds and claims. I'm going to give you more details about this in a minute.

This quarter, once again, had a strong cash generation, twice higher than the same period of last year. We reached BRL 133 million in cash generated in this period. Once again, the highlight was the improvement in working capital. In nine months, we generated BRL 343 million compared to a consumption of BRL 100 million in 2018. This improvement in working capital (haved) was translated into a reduction of 10 days now. We have or we had 30 days in September 2019. This cash generation allowed us to reduce the leveraging of our company. It's now reduced to 1.40x our EBITDA.

Finally, in this slide, I would like to highlight the performance of our Argentinian operations. In spite of the macroeconomic challenges we face there, we benefited from synergies and the greatest operational efficiency. Our EBITDA increased fourfold in this period. And now we have a net income of over BRL 5 million.

Slide #5 now. More details about the additional impacts connected to the Avianca event, the BRL 45 million I mentioned. This impact is connected to reimbursement and bookings, expenses connected to a difference between future estimates and the actual results. Several customers who had not attended to the departure date until June 30. And that had not made a refund or cancellation request until the end of the Second Quarter, they actually came to CVC in the following months after their departure date. We also faced several cases of charge back of purchases made online in a much higher proportion than what had occurred until the end of the Second Quarter.

We also had additional provision for civil contingencies -- civil claims. At the end of the Second Quarter, we had accounted for the cases that had already been filed by clients until that date. And in this Third Quarter, we had a large number of new cases being filed.

Based on these occurrences that took place between June and October and/or the boardings that we had forecasted, we now understand that we will still have additional expenses for additional costs. And we now estimate these to be around BRL 30 million or BRL 40 million.

I'd like to highlight that this is a very recent development from a completely different nature than what we've seen in the past. And therefore, the historic base for high precision of estimates is quite a recent one.

Slide #6 now. We will talk a bit about the seat offering and also the average ticket for airline tickets. As you can see to the left-hand side, the offering of seats is now more stable and is growing actually. The gray line shows the growth of seats compared to the same period previously that was observed in August, when we even faced a reduction in the offering. The light blue line shows the same comparison now with the month of September. And the dark blue line shows the behavior in October. So we clearly see from this graph that the sudden departure of 11 aircraft from an important player in the market, they went to maintenance, this had an impact in the short term, once again. The impact of those effects can be seen in the price component, that's the right-hand side of the graph. Here, we see some of the main destinations in the northeast of Brazil.

In June, at the gray bar shows, we see that we faced an impact up to 59% of price increase versus the same period of last year. In September, which is the light blue bar, we see an increase in offer and then the price situation started to become normal. And in the same month, we saw a growth of bookings for the leisure department up to 5%. In October, in the dark blue bars, we see that with a sudden reduction in the offering due to the departure of these 11 aircraft, once again, we saw price increases for these main destinations. The exception here is the city of Salvador. I'd also like to highlight that starting on February 2019, we will have a greater offering of seats.

Slide #7. This talks a bit about our advances concerning our digital transformation process. First, I'd like to mention that we launched new features in our web platform for Submarino Viagens. This has had an impact, both in conversion and in an increase in the share of hotels. This is due to a better UX, a higher speed of access. And therefore, an increase in our conversion rates.

In CVC, we've mapped the clients' journey, that was something we did early this year. And we divided it into 4 larger stages: prepurchase, purchase, preboarding and the trip itself. And in mid-2019, we started to build all these components. They will be present throughout the consumer journey with CVC. The first component we will launch is a dynamic price proposal. The client will receive a link through SMS or e-mail. And they will be informed about changes in airline ticket. They will also soon be able to purchase the airline tickets when it reaches the price the consumer is searching for.

Still in 2019, we will launch our web platform for the CVC brand. We now have auto and air tickets, that's what we will have still be it this year. And in January next year, an important development for our digital area. We -- all of our digital team will move to SÃ£o Paulo. 150 collaborators will be in our new office. It's a very modern and laid-back environment. And I guess this will certainly attract more talent to our team that already has over 150 collaborators.

Slide #8 now. I'd like to tell you a bit about the developments in our business model so that we are increasingly aligned to the omnichannel concept here in CVC. As I mentioned previously, we are doing several improvements to our platform, both from a usability perspective and also from a UX perspective, always considering the clients' journey throughout all its stages.

Another important aspect is our product portfolio. It will be fully available in all platforms, both at our brick-and-mortar stores and in our digital platforms. We also will offer the best prices in all of these platforms.

Starting in January next year, the cvc.com platform will be managed by (Bill Lunn), the head that's responsible for our network of franchisees and also for our omnichannel strategy. So our -- we will have an integrated communication and promotion strategies using both traditional and digital media. We will also consider the cycle -- the sales cycle of life. For clients that have their proposals in a store, they will then be able to make this purchase through the mobile or web app. Clients that also made purchases in our stores in the last years and that now moved to the digital platforms, they will also receive the same service.

Slide #9. I'd like to tell you that we actually reinforced our structure, our team of executives. We recently hired Marcelo Zappia, an executive with a strong experience in HR and digital transformation. He will be our Executive Director in the Human Resources area starting in January 2020.

I'd like to remind you that Fernando Oliveira, who's been with us for nine years and who has done an amazing work facing several challenges in our company, he will now be responsible for the strategic planning area and also the revenue management area. Alexandre Vanzella, he will take the position of Product Director for Americas. The goal is to increase our purchase of direct hotels in our region. Alexandre has a very sound track record over the last 13 years working with the main tourism brokers globally. For national products, we brought in Bruno Heleno with over 15 years of experience in the Corporate Tourism sector. He worked in large networks of hotels. He worked recently at the Othon, a network of hotels. And he will add an important expertise in this process of the acquisition of corporate hotels. We will also be joined by Fernando Tanaka. He will be Director of New Projects. He has over 10 years of experience in the tourism sector and in online companies. He has also worked in the international market recently.

Last but not least, Roberto Vertemati is coming back to CVC. He has worked with us for over 22 years in the past. Always -- he always had an incredible performance for us at CVC. Recently, he did an amazing work at Beto Carrero Company, which is one of our partners. And he will now manage the agency channel for the CVC brand.

Slide #10, a bit about our strategic plan. We've just concluded this planning cycle in September. I'd like to reaffirm the pillars that we have already followed in the last few years. So organic growth, M&As, new revenue streams, austere cost management and digitization. I'd also like to highlight 2 important elements here. One is being data strength-centric and customer-oriented in all of our transactions.

In this cycle, we will also focus strongly on our clients. This is one of the most important pillars of our company. We want to get to know better our consumers and consumer trends. We want to offer a tailor-made offerings. And we want to create even more loyalty from the customers in all of our brands. We also want to differentiate ourselves. We want to increase our offering of exclusive products by giving also a segmented value proposition and exploring other opportunities connected to tourism. In the omnichannel pillar, this is something we've been talking about for several years. We've always believed that this is the best way to go with our customers to provide them an experience in all connection channels, whether brick-and-mortar and digital, that's what we call omnichannel. And we are working very strong with that commitment.

We will use technologies and digital platforms to connect our customers or to connect to our customers throughout their journeys. We will offer all products. And we want to have a unique view of our consumers in all contact points. As for competitiveness, we want to use even more intelligence for revenue management. Now with Fernando coming in early next year, we will have better data analysis. The analysis of our competition still focusing on a very austere cost management and always looking at improving our processes and optimizing technology.

And now -- I'm now going to give the floor to Vitor Pini. And he will cover -- I'm still going to cover Slides 11 and 12 and then Vitor will come in to talk about Brazil and Argentina.

So on Slide 11, these are Third Quarter results. Bookings -- confirmed bookings over BRL 4 billion. This is an increase of 3%. There was a deceleration regarding the first semester of the year, most of all due to price increases in air tickets. And there was also a reduction in the trust of consumers, exchange volatility. That led the leisure segment to fuel an impact in the First Quarter.

The corporate area has had great performance, in dark blue bars, double-digit growth. The pro forma growth at CVC Corp was of 2%. There was an impact of the reduction of sales in Argentina due to the economic situation and to the depreciation of their currency.

Net revenue, BRL 415 million in the Third Quarter. There was a decrease of 3.6%. And that was due to the reduction of the take rates, 90 basis points (and BTs). There's more participation of the corporate sector, lower margins. There was an impact of the Avianca event. And there was a price repositioning as well, most of all in the leisure sector in Brazil.

When we include Argentina, there was also a 3.6% reduction in our net income. In this quarter, we had an adjusted net revenue of BRL 98 million. Including Argentinian operations, the growth -- pro forma growth was up almost 25%, this in adjusted net income due to the operational improvements that we saw in Argentina.

Slide #12. We will now cover the results in the first nine months of this year. Even in a very challenging environment, we finished the first nine months of this year with growth in all our main business lines. I'd like to mention the cash generation performance. We went from BRL 100 million in 2018 to a cash generation of almost BRL 350 million in 2019.

So now I give the floor to Vitor Pini, our Corporate Relations Director. And he will talk about Brazil and Argentina in more detail.

Vitor Alaga Pini {BIO 16510922 <GO>}

Thank you, FogaÃ§a. Good afternoon, everyone. I'd like to go to Slide 14, that's how we start to see the results in Brazil, net revenue. In this quarter, BRL 415 million equals minus 3.6%. This was mainly caused by the 0.9 (npps) drop in take rate, 90 due to the mix of bookings, strong business travel. Their take rate is lower when compared to the leisure segment. There was a 0.3percentage point impact. There was also the impact caused by Avianca, as we mentioned in the Second Quarter. It should have been 0.45 bps (sic) (pps). There was also a price repositioning, as FogaÃ§a mentioned, for the packages of our products and that's a 0.15 decrease in our take rate.

We expected these items. So the mix effect, combined to the Avianca impact plus our price propositioning, we hope that this will cause an impact of 1.2 pps in the take rates of the Fourth Quarter when compared to the Fourth Quarter of 2018 in a pro forma comparison. We believe that in the future, this impact can be mitigated. We can balance supply and demand of seats. And we also expect a more favorable macroeconomic environment next year.

Slide 15. I'd like to tell you a bit about our operating expenses here in Brazil. First, I'd like to mention that recurring operating expenses were practically flat when compared to 2018 in the both Third Quarters, even in the face of something that happened throughout the period. This is a trend shift throughout the year, as you can see to the right of this slide. This is connected to lower expenses with sales, lower provision for doubtful credit, also general expenses. We reduced our expenses, most of all, based on our base 0 budget. And we are also capturing the synergy with the recently acquired companies.

In this quarter, we also had an increase in marketing expenses. Once again, we wanted to face the macroeconomic context in our industry. So we invested more in marketing during this quarter. And I'd also like to mention that we had a growth of other expenses, 44%. And that is connected to the provision for contingencies because there was an increase in the number of claims in this period.

Slide 16. This is a slide about our own financing and the NPLs. As you can see in the graph, the coverage for loss provision, the balance of our provision compared to the size of our portfolio is flat practically. In our understanding, this is appropriate as we see it. It's about 11%. In this quarter, the participation of own financing at CVC had a decrease when compared to the previous quarter. And it now represents 8% of our own financing portfolio. Out of this 8%, 1.5 pps represent CVC first approval. So this is a lower risk portfolio.

Regarding the mix of payments that we had in this quarter, there was an increase in the participation of credit card and our own financing was reduced, as I mentioned. We also -- cash was reduced compared to the Third Quarter of 2018.

Slide 17 now, we have here the EBITDA for this period. It's the sum of all these items I've just mentioned. And the normalized EBITDA of CVC Corp in Brazil was of BRL 177 million in this quarter, a decrease of 7.5% when compared to the third Q of 2018. When it comes to the nine months of 2019, there was a growth of EBITDA in the Brazilian operations, a growth of 7.1%. We reached BRL 506 million. The margin is 41.6%. It represents an expansion of 0.6 bps (sic) pps compared to the same period of 2018.

Moving on to Slide 18, we see the adjusted net income of CVC Corp in Brazil. Also adding up the items that I've mentioned, we also have finance expenses that were higher, offset by lower income tax and social contributions in this period. So we had an adjusted net income in Brazil from CVC Corp, 0.3% higher when compared to last year. We've reached BRL 247 million in the Third Quarter -- sorry, 97% and BRL 247 million is for the nine months of 2019, 8% growth.

Slide 20. Let's talk a bit about the results of our operations in Argentina. In spite of the situation in Argentina, in reais we had a decrease by 10% in this quarter. This is connected to the macroeconomic situation in the country, most of all due to the impact of currency devaluation. However, our 2 Argentinian operations had a performance that was better than the market. We gained market share when it -- when we consider pesos, there was a growth in results of over 60%, whereas inflation is 50%, in spite of the decrease of reserves and the net income is under pressure, of course. But our EBITDA increased by fourfold in this period, BRL 6.5 million. And our margin increased also due to the synergies now because our operations have become integrated in Argentina.

With this improvement of EBITDA and the implementation of our hedge policy -- a 100% hedge policy, we reverted a loss of BRL 14 million that we had in the same period of last year and now this is a positive result of BRL 5.1 million. The margin is 15.8%.

Slide 21. Here we see Argentinian result for the nine months -- the first nine months of 2019. Reserves also suffered an impact of the macroeconomic situation, currency devaluation. There was a decrease of 18% in reais. In spite of that, net revenue was stable. And even though -- in spite of that, we doubled our EBITDA to BRL 10.3 million in this period, 3percentage points increase due to the synergies that we've captured. We also have our hedge policy, as I mentioned. And the losses that we had last year now became a flat result in 2019.

Slide 23 now. We see consolidated results for CVC Corp, as FogaÃ§a mentioned. If we look at our Argentinian operations, what's relevant, in this Slide #23, is to see that in spite of the challenging scenario, we had growth in the main business lines of our company.

In Slide 24, I'd like to talk about cash generation and working capital. As FogaÃ§a said, there was strong cash generation in this quarter. And in the 9 first months of the year, BRL 343 million in cash generation, this is the best performance we've had in the last three years. In this specific quarter, BRL 133 million, BRL 75 million or 2.3x better than we had in the same period of last year.

I'd like to highlight working capital. There was an improvement when compared to the Third Quarter of 2018, BRL 85 million. This improvement in cash generation reflects the best volume for suppliers that we had this quarter over last year, most of all connected to airlines and a better management of receivables at Submarino Viagens.

On the right-hand side of the slide, we have an analysis of working capital in days. Here, you see that the company improved its working capital in days. The total was of 10 days when compared to the Third Quarter of last year. If we exclude the incorporation of (Acera Tour) in a pro forma comparison, that's 0 accounts receivable days. Still, we had an improvement of six days. Now we have 34 in the pro forma comparison and 30 days in the normal comparison.

In Slide 25, we talk about indebtedness. I'd like to mention that we reduced our leveraging compared to the Third Quarter of 2018, 0.2x. That's the net debt profile compared to EBITDA. We also have a longer profile of the debt. Now we acquired debentures earlier this year. There was an increase by 60% in financial expenses in this quarter, due, most of all, to an increase in our debt, lower financial revenues due to anticipation to suppliers. And we also had expenses connected to IFRS 16. These impacts were offset by currency variations that affected positively our result and also the financial revenue in this year.

Finally, Slide 26, we have ROIC. In this quarter, we reached 21.1%, aligned with our history. And that's how I finalize my presentation about our operations. And we would like to open to a Q&A session.

Questions And Answers

Operator

(Operator Instructions) Olivia from JPMorgan would like to ask a question.

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

Actually, 2 questions. The first is about online and the competition environment. You made it pretty clear earlier in the presentation, your changes online. I'd also -- I'd like to understand what you think in terms of price? How's the environment going to change? We have 3 players with a lot of promotions. How is this going to impact the dynamics of the sector? Are you going to change your commercial positioning in the online environment? Second question is regarding brick-and-mortar stores. We saw some negative results. I'd like to understand in the short, medium term, what are the expectations of franchisees? Do you still believe you can deliver on your expansion plan in the midterm, in the medium term?

A - Luiz Fernando FogaÃ§a

Olivia, this is FogaÃ§a. Regarding online, we've seen -- and this is not recent, the online area has been in Brazil for many years now. We have global players here, of course. But this is a tougher economic situation we're facing. We are constantly looking at market share, sales, these are information we have every month. It's important to understand that the CVC brand, our B2C brand, it is different in terms of services reliability and even in terms of our customer service at stores because we provide credit. However, this represents a price gap connected in our competition. And we are constantly following up on this gap every day actually. We have joint analysis to see what the difference is. And this is something we watch carefully. In this market that is becoming increasingly harder due to all these developments I mentioned, we've seen some important movements. We are market leaders. And we have the most relevant brand in consumers' minds. So we preserved our price gap. We are following up on the market so that we can still be leaders and gain more market share.

We believe that this is a specific moment in our market. There is a reduction in supply. What happened in the Northeast also has an impact. We are starting high season in Brazil. When we look abroad, there's a lot of volatility in the dollar. And this also gets in the way somehow. So these developments are always -- are all happening at the same time. However, we believe that this is a seasonable impact. We've seen this before in other years. Currently, as an important player has left the airline area, we observed a reduction in the offering. But this will stabilize. It's happening a little by little. And we've had record rates of occupancy in seats and yield management.

The market, of course, is tougher from a consumer perspective. And the market is still adjusting, getting back to balance to minimize these impacts. When we look at store sales, if we look to 2015, '16, that's when we saw a more difficult economic scenario in Brazil. Our GDP dropped by 4%. We had a decrease in store sales in some semesters. And within 12 months, we had flat store sales. This year, we have a cumulative of 2%. Of course, this is not what we expect. But we believe, once again, that these are specific situations. Stores are still being open. Our franchisees are still very motivated with future perspectives. We've done a survey with consumers. We mentioned that in our previous call, the survey with over 3,000 consumers, once again, it reinstates the strength of our brand, of our CVC brand, an absolute leader in all age brackets and income brackets.

So when we think about market share, we have still several regions with great opportunities to gain market share. Our expansion plan is aligned to this opportunity. When we look at sales per store and the main indicators, we see that in spite of this decrease in the quarter, which is not what we want. But still we have very healthy rates. It's a profitable operation and still very attractive to all those involved.

When we think about this omnichannel strategy that relies on technology. And we are working on it, of course, for over a year now. But of course, this takes some time to mature. We are practically ready. We have a new system for stores that will be connected to digital platforms we have notified. That's when you actually notify consumers that price decreased for the proposal they had asked in a store. So you can establish research parameters with this tool. And we started testing this with the Submarino brand, because it has a lower impact from a transformation and volume perspective. And this test was very successful. We have the web, mobile and desktop platforms showing very interesting conversion rates. And now we are the final stages to migrate these new platforms to the CVC brand. Having this in our platform and such a strong brand, setting ourselves apart in terms of service because we have over 1,300 stores, this will allow us to be the only player to integrate completely to be omnichannel. CVC is the only one that can do that in Brazil. And that's why we mentioned in our presentation that the sellers will actually have one additional platform, they will have greater penetration in digital media, investments of 2% of marketing now and digital platforms have increased to 20% this year. And next year, we will probably reach 30% in those investments. This is aligned to market trends.

And we have a system that allows us to manage our customers in stores. It's called (miagen, the my) schedule. And this is connected to our digital platforms. And when sellers make the registration of the client, they will keep on interacting with the same customer. That's what I mentioned about the journey of the consumer. From the moment they start researching, looking for prices, then the purchase throughout the trip and then after the trip, we will be connected to those consumers throughout all these changes. And the salesperson will be constantly connected to its final customer. They will be able to visualize this through the platform. And they will be compensated for that. We believe that this will take us in 2020 to amazing perspective of having a true -- a truly integrated and implemented omnichannel model.

Operator

Helena Villares from ItaÃº will ask a question.

Q - Helena Villares {BIO 21333811 <GO>}

I actually have 2. The first is that we saw the credit decreasing a bit compared to the Second Quarter. I wanted to understand, what do you think about this credit? If there's a good share as a first approver, as you mentioned, what do you think about credit? The second aspect is about digital. You mentioned in the presentation, all the initiatives that you have right now and are being rolled out, have you interacted with another player that is improving culture, information exchange? Will you -- are you looking at that?

A - Luiz Fernando FogaÃ§a

Helena, this is FogaÃ§a. In terms of credit, we said last year, actually a couple of years ago, we were worth 5%. But four years ago, we had reached 9% in the past. And in the last 12 months, we are back now to 10%. Earlier this year, we mentioned that we would reach 15%; that was the threshold. It was not our target. But we just wanted to say the limit in our understanding for our own financing. It already included this operation of CVC as the first approver. Now we've reached 8%. This is not because we've concluded that losses were higher or that risks were higher than we've foreseen. This is actually because economy improved in terms of credit. Our partners who are constantly working with us to improve the credit core system, our partners showed an increase in approval. We had an increase in the penetration of credit card. This takes away a bit from our own credit operation and from the bank's credit operation. So this is an operation that we follow up on daily. It is profitable, it's incremental and we will be probably around 10% the share of this credit as first approver. This is actually good to feel how delinquency rates are for this first-approved state. It's currently 1.5 pp. It's not relevant, as Vitor said. Of course, this is a lower risk credit. And throughout all the stages of approval, we are looking at them to understand how customers behave and how their delinquency rates behave. We have several banks that are our partners, we want to help them to improve their approval system so that we have more sales and less risk for the company.

Regarding digital, we are still concluding our diligence process. We did a binding proposal. We had done a pre-diligence. But this binding offer is now subject to its finalization next week. Part of the diligence is connected to the analysis of the tech platforms of their team, of their culture at Almundo. What we've seen thus far has been very positive. They have a young team. They are working with the cutting-edge technologies. It's been around for 3 or four years. So it's very recent. Their team has a digital culture. They work with squads and finance and marketing, digital products, tech, data science. They all work in squads. So they have really evolved throughout the last four years. Jacques and Fabio are leading our teams here internally. And they were there -- they visited them several times. They have visited us. And we have made an in-depth mapping of the advantages of synergies we can have, all the components that we can have from Almundo, Submarino, CVC. We have an in-depth mapping. And this will be concluded next week. Of course, the cultures are not integrated yet because the acquisition was not concluded yet. They are not part of CVC Corp yet. So we expect to conclude all that next week. But as we said before, we believe this is going to be a huge accelerators, both in terms of human resources, culture and platform.

Operator

Mr. (Gabriel) from Santander has a question.

Q - Unidentified Participant

I'd like to talk about the take rate pressure. Do you believe this is temporary? Would you expect the same pressure for next year? Or is it just a recent movement? Also, I'd like to know how do you see the competitive landscape in Argentina.

A - Luiz Fernando FogaÃ§a

(Gabriel), well, the take rate is facing 3 impacts: our mix, greater growth in corporate than in domestic bookings, a better performance in international than domestic. And I'm talking about Brazil here, due to what we faced here in our country. And there's also what we call the price repositioning. We rely a bit on external conditions, of course. And we believe they should evolve to levels that are close to our history at our company. When it comes to share of channels, share of domestic and international, there is, of course, the Avianca impact. Last year, they were working with very low prices, lower than other airlines. And we had a better commercial condition with them, better than our competitors. So this is an impact that will maybe last for longer. As for price repositioning, I believe this is temporary. Of course, we cannot assure that it will go back 100% to normal. We rely on the market for that. But we see the market now going through on a typical moment. And we expect this to improve next year in terms of economy. And these uncontrolled variations such as oil spills and other events. We are, once again, constantly watching. And we are market leaders. So we have the stronger brand. Our NPS is of over 80. This allows us to have special prices. And we will keep on setting ourselves apart from other players.

As for Argentina, well, ever since the primary elections when we had already signs of who was about to win the elections, there was, back then, a short-term impact, a currency devaluation, the market was really concerned and we've always had 100% hedge policy. So we saw that their economy sort of bounced back quite quickly. They have a very strong dollar culture in Argentina and sales in pesos, in spite of the high inflation rates, over 50%, our sales in pesos grew by over 60%. So this was offset, actually. And after the primaries and then we had a definite election, we saw quite a strong growth in sales in pesos and dollars due to anticipated purchases from the market, since they didn't know how the country was going to behave with the elections. I think this is very recent still. The elections happened recently. The new government didn't take office yet. They will in December. But we -- as we've heard, we have some perspectives regarding the economy. They will incentivize consumption. They will maintain exchange rates. And if it happens, we believe this is going to be very favorable to tourism.

Operator

Mr. Richard from Bradesco has a question.

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

My question is about the corporate segment. FogaÃ§a mentioned that this segment is growing. I believe this is connected to inflation rates in airline tickets. What has been the performance of the other businesses within this segment, Esferatur? There's another question. In September, when you saw a balance in the offering of airline tickets, this had a positive impact in the leisure industry, as you mentioned. I just wanted to understand what was the impact in the corporate sector for you?

A - Luiz Fernando FogaÃ§a

Richard, well, as for the corporate segment, we have Hackatur. They've had quite a good performance for a while, not just in 2019 but also in 2018 in general terms. In spite of some difficulties, the corporate sector grew. We gained market share when compared to the rest of the market last year. And in the Fourth Quarter of last year, they improved their performance. And this has remained so throughout 2019. We also have good performance at Esferatur. Esferatur joined the group in April. And of course, it's normal to face this adjustment period, in other culture, the executives. But the Esferatur team is very committed. It's a highly skilled team under Beto's leadership. Beto has an amazing career in this market. And in the Third Quarter, we see an improvement -- an important improvement in Esferatur's performance. Until the end of this year, they will start to have a new technology or B2B. They will be able to improve their performance in the domestic area because internationally, they already have a highlighted position. The system they had so far was not the best platform for domestic market. This will be concluded until December. So we see good perspectives for Esferatur.

Trend went through a cycle. They joined a corporation. There is this process to create a new culture to learn how to work with targets, sales and results execution, several KPIs. In late last year, we accelerated this cycle. We've done that with Trend for one year. Now we have a greater team, great environment in the company, better systems. It's a B2B system that is more focused on hotels, whereas Hackatur focuses on the airline platform.

And this will be replicated in Esferatur. Trend is beginning to stabilize. Services NPS is improving. And they have double digits of growth, which is excellent news as we see it. Even with this improvement in the leisure industry, the market is quite warm and corporate had a good performance in September aligned to July and August.

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

Can I ask a follow-up question on leisure? I don't know if you can answer this question. I wanted to understand a bit about the underlying demand in the market. I know that this is hard to do because you face the Avianca impact and the price in airline tickets. In September, there was greater balance, right? Do you believe that this is the underlying demand level? Or will this problem be solved in terms of price raises? Should leisure come back more strong next year?

A - Luiz Fernando FogaÃ§a

Well I believe that this 5% is the result of a smaller increase. But it's still an increase of about 10% in prices when compared to 30%, 40% that we had previously. But it was not still an improvement in international, from an external perspective. Exchange rates are still very volatile. But when we compare the performance of international even with all these external variables, we had a double-digit growth. Even in this challenging environment, we believe that when the supply side and the macroeconomic side are more stable, we believe that probably this 5% level, we should overcome it.

Operator

Next question is from Luiz Felipe from BTG Pactual.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

Two questions. The first is about working capital. We saw a reduction in advancements for suppliers. What is the connection between that and the take rate looking forward? My second question is about marketing investments. If you consider your digital strategy, how do you intend to grow throughout next year? I know you mentioned a bit about this, FogaÃ§a. But if you could please go into further details.

A - Luiz Fernando FogaÃ§a

Luiz, well, as for working capital, ever since last year, we've been saying that it wasn't a typical moment due to some developments. If you look at the history of the company until 2017, we've always generated a lot of cash. We were asset light, not a lot of leveraging. But last year, we faced some extraordinary events, some uncommon events. And we thought this was going back to normal this year. It was a target that we have, all of us as executives and business communities. This is something we follow up every week and every month. I believe this is very much embedded in our culture right now. We have always worked with targets. And once people learn how to do this, it becomes sort of second nature.

So in all quarters, we see cash generation. If we look at last year -- the last quarter of last year, we still have not implemented this target-focused management. We should have overcome BRL 400 million in cash generation. And we face several challenges, as you know. BRL 340 million now, BRL 400 million and something for the year as a whole. We have BRL 100 million connected to Avianca, let's not forget that. So it's quite a difficult in a typical year. But that means over BRL 500 million in cash generation, in spite of all those situations. We are following up on that. Of course, we mapped several initiatives. Some of them relied on system changes. Looking at the macroeconomic situation, we decided to do some system changes. But some initiatives were not rolled out. We wanted to mitigate the external impacts. In September, we rolled out a couple of new initiatives that will probably improve cash generation. We have, of course, some opportunities we are pursuing. We've learned with the market and with those executives that are coming in, in the corporate sector. We also see opportunities when it comes to accommodations.

We always want to be forward-looking. We want to foresee where the market is going. That's what I mean. So when we move to different regions of the country, when we looked at what was happening in the Northeast. So we've blocked different hotels, we book them. The Northeast is facing this specific situation that I mentioned. But in some regions, we have growth of 20%, 30%, 40%. This is in our DNA as a company. Of course, we need to look at accommodation in hotels. But this is -- in terms of value, it's lower than we did in the past for airlines. If we look at the current market conditions, when it comes to results, growth, profitability of airlines, this year, it was not necessary to do any advancements to any company. They do not rely on us. But of course, we are always open and willing. We've always been open and willing to discuss this.

We are a 50-year-old company. And we have amazing partnerships with our suppliers. But I guess in terms of working capital, this is quite a balanced equation. Of course, we always have new opportunities to explore in terms of sales. But the impact is minimum when it comes to cash generation.

As for digital marketing, your question. Digital marketing, while we started this cycle, this year -- actually, last year, we switched to a new marketing agency, a more updated marketing agency, they're more modern. That's when we started actually analyzing where consumers were going, where are they researching. And this year, we've introduced greater investment in digital channels. We really want to follow up this trend that consumers are showing. We now have digital marketing managers, we are strengthening our team and we really want to optimize our marketing in digital -- our investments in digital marketing. And these investments give you more information. Digital marketing allows you to be more assertive. So we are implementing several metrics. And we will learn a lot from Almundo because they have been doing this work for a while now.

Operator

Now I'm going to give the floor to Mr. FogaÃ§a, who will make his final remarks.

A - Luiz Fernando FogaÃ§a

Once again, thank you all very much for your interest in our company. Thank you for following up. And let's move on to the Fourth Quarter, always working to improve our performance as a company. And we want to work in close partnership with our consumers.

We will have our CVC Day this year. And we will have some updates on our digital strategy. Thank you, all very much. And have a great weekend.

Operator

This earnings results call for the Third Quarter of 2019 is finished. Thank you, all for participating. I wish you all a good afternoon.

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