

## Y 2015 Earnings Call

### Company Participants

- Luiz Eduardo Falco Pires Correa, Chief Executive Officer
- Luiz Fernando Fogaca, Chief Financial Officer

### Other Participants

- Andrea Teixeira, Analyst
- Fabio Montero, Analyst
- Franco Abelardo, Analyst
- Robert Firth, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to CVC's Fourth Quarter 2015 Results Conference Call, Today we have with us Mr. Luiz Eduardo Falco, Chief Executive Officer; and Luiz Fernando Fogaca, Chief Financial Officer.

Today's live webcast and earnings release may be accessed through CVC website at [www.cvc.com.br/ri](http://www.cvc.com.br/ri). We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company presentation. Once again, everything has been prepared according to the Brazilian Accounting Standards and accounting pronouncements.

Before proceeding, we would like to mention that forward-looking statements are based on the beliefs and assumptions of 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.

I will now like to turn the conference over to Mr. Luiz Eduardo Falco, Chief Executive Officer; who will begin the conference. You may proceed, Mr. Falco.

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

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Good afternoon, everyone. It is a pleasure to begin this conference call to discuss the results for the fourth quarter 2015. We apologize for our small gap, we are now connected and will begin. Referring to our agenda today, we will approach the main actions carried out during the fourth quarter 2015, we will then present the financial results. And as usual, we will go on to the question-and-answer session.

To begin, I would like to approach some of the sales highlights for CVC. The Brazilian macroeconomic scenario was quite challenging until '15, impacted by a GDP drop, and increase in the unemployment rate, and a strong depreciation of the Real with high volatility and the exchange rate. Despite this, the tourist and leisure industry recorded a growth of 1.8%, while CVC presented a growth of 6% and some bookings, well above the GDP estimated for the period, reinforcing the resiliency of the tourism sector, as well as leading position of CVC.

Our value proposal and brand recognition have allowed CVC to gain market share going from 12.2% in 2014 to 12.7% in 2015, that is to say half a point of share in this market. The Real depreciation led to a change in behavior of consumers. They are now buying more domestic products. The average ticket of CVC remains stable, once the clients maintain the expenses similar to those of their international trips. And CVC included new items in their packages such as insurance, trips to destinations, and car rentals and this has enabled us to capture new revenue streams.

These new products that are part of the packages showed an increase of 27% in sales vis-a-vis the previous year. These ancillary products reinforce our positioning as a full-service render in the tourism sector. And evidently, this pleases the client who is able to include all expenses in a single package.

I would like to go on to slide number 5 and we will show you that despite the challenging scenario in 2015, CVC has had a double-digit growth in all of its metric aligned with its historical results, reinforcing the resiliency of the leisure tourism industry and our business model.

I now go on to slide number 6, where I would like to speak about a landmark for the company. CVC inaugurated its 1000th store on December 17th in Piripiri, Piaui, a city with 62,650 inhabitants, showing our ability to expand its network to new cities in Brazil. The rural towns presently represent more than 50% of bookings for CVC. It is important to highlight two aspects. CVC is the first network in Brazil to go beyond its number of stores in Brazil through franchises.

It is also important that our investors understand that the population that lives in the hinterlands of Brazil represent 150 million inhabitants, compared to 50 million living in the cities. The per capita income is not the same, but once again, the expenses can be three times greater. This is important, because the size reaching the 1000 stores, we are now having a share in the revenues of small towns and this is a movement that will continue going forward, showing the opportunities that we have to expand our services in the leisure segment.

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In slide number 7, I speak about the online performance. We continue to expand our product offer and enhance our performance through technological enhancements and by enhancing our product offer. In the fourth quarter, we launched a car rental and multi-mobile device platform with a growth of 15.6% in 2015. The sales closed directly through the site, what investors call, e-commerce, grew 30% with a rather vigorous growth in the market. The conversion rate continues to improve as a result of the different initiatives implemented during the year, closing the year at 0.20% vis-a-vis 0.15% in 2014.

In the conversion rate, we should keep in mind the product mix, as CVC has more complex products and other services are less commoditized, we think that the conversion rates are very good when we compare our product with those of others.

In slide number 8, I will speak about the performance of SubmarinoViagens. Since we took on company control, we have implemented several initiatives to capture synergies and enhance the SubmarinoViagens operation. I highlight the structure optimization, negotiation with suppliers, allowing us to control costs and expenses, better commercial conditions and cross-selling opportunities for hotels, car rentals and insurance and an improved product mix with a growth of 57%.

As a result of that, SubmarinoViagens presented a net income and EBITDA that were positive in the four months under which they have been under the CVC management. We foresee greater opportunity for 2016. We will unify the CVC and SubmarinoViagens platforms, allowing us cost reduction and investment optimization. We will also capture new synergies with the move of the company to Santo Andre in mid-March.

We go on to slide number 9, where I will speak about the performance of Rextur, once again, a company acquired by CVC.

Since we took on the company in September of 2015, we have captured new synergies and have filed new revenue sources. We have optimized the structure negotiated with suppliers to cut down costs and expenses. We have begun to sell the corporate hotel in RexturAdvance at an accelerated rhythm, and we have additional initiatives that we will be carrying out, such as the change of Rextur to Santo Andre in April, allowing us to capture new synergies, integration of the platforms of air connection from RexturAdvance and CVC, allowing us for a streamlining in investments and expenses. And we will be able to implement new models to expedite sales.

I would like to refer to the synergies that we have already attained in terms of numbers. For the first time in our history, we have been able to enter the corporate segment through the main player and with SubmarinoViagens that enables us to consolidate our position in the online segment. Both acquisitions were consummated on August 30, 2015. In the four months, we were able to capture cost synergies that already totaled 32 million for the next 12 months. This synergistic capture began partially in the fourth quarter 2015 and has increased somewhat in the first quarter of 2016 and it will reach its plenitude in the second quarter of 2016.

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We now would like to show you what the Group is like after these acquisitions. With the acquisitions of RexturAdvance and SubmarinoViagens, we consolidate our position as a leading company in the travel segment in Brazil. Our reserves represent 8.6 billion in the last 12 months, and we have a leading position in that leisure tourism CVC, in business RA and we also have a highlighted role in the online channel through the acquisition of SubmarinoViagens. This makes us one of the greatest players in the online market.

The three brands that we operate in each segment are the benchmark in their respective sectors. Additionally, the acquisitions are fully aligned with our omnichannel strategy, allowing us a presence in the online channel and in travel agent channels.

In slide number 12, I would like to refer to some opportunities for 2016. We have already agreed upon our expansion plan with new master franchisees, encompassing 300 store openings in the period of 2016 to 2018. This will ensure that we will be able to maintain our pace of opening 100 stores per year per exercise, and we have a great deal of space for this considering that we have been very successful in going towards rural towns.

These new stores will be opened, where CVC has a lower share, which will allow the company to continue to increase its market share. Additionally for 2016, we will continue enhancing the performance of our stores by implementing new CRM tool that will increase the conversion rate for sales.

On slide number 13, I'm going to refer to the new synergies that arise from the acquisitions. We have already attained 32 million that we have identified. As highlighted before, we have 32 million in synergies; and altogether, this represents new opportunities, thanks to systems integration and the generation of new revenues for the Group. We will optimize the structure due to the change of SubmarinoViagens, and RA to Santo Andre in March and April, respectively, an increase in the sale of hotels from RexturAdvance and the beginning of the offer of car rentals for business segment, greater share in the sale of hotels and packages at SubmarinoViagens and synergy in the IT platforms among the three companies from the Group.

I would now like to give the floor to our CFO, Luiz Fogaca, who will refer to the company's financial results.

### **Luiz Fernando Fogaca** {BIO 18466257 <GO>}

Good afternoon to all of you. We are now on slide number 15 and we're going to speak about bookings that totaled 1.3 million in the fourth quarter and 5.201 million in 2015, representing a growth of 2% vis-a-vis the fourth quarter of 2014 and 6% versus the year 2014.

The fourth quarter '15, the bookings were affected by the depreciation of 51% in the Real vis-a-vis the dollar, but these were more than offset with the two double-digit growth in domestic bookings besides the drop in consumer confidence along with the last minute promotions offered by suppliers. made the clients continue to buy closer to their boarding date. Despite this behavior in the fourth quarter 2015, we see that it was less accentuated

in previous quarters. Our consumed bookings in the fourth quarter '15 had a strong growth of 11% vis-a-vis 2014, while bookings for future quarters have had a drop of 3%.

We go on to slide number 16. And despite the challenging economic environment, the consumed bookings through the online channels continue to have a consistent growth, thanks to the investments that we have made on our platform and also due to the improvement in the conversion rates. All of these sales channels presented a consistent growth in 2015 vis-a-vis the year 2014. We continue with our store expansion process and we have opened 50 new stores in the fourth quarter 2014 corresponding to 90 net openings in the last 12 months; closing the year with 1,004 exclusive stores.

We go on to slide number 17. We're going to speak about boarded bookings. Boarded bookings grow 3% during the fourth quarter and 12% during 2015. There was a strong growth during the year, thanks to several sales and marketing initiatives. The CVC net revenues were 231.4 million for the fourth quarter and 812.6 million for 2015, a growth of 5.0% and 13.7%, respectively vis-a-vis previous period. In 2015, we had a margin improvement due to a more favorable product mix with an increase in the domestic segment share, where we have better margins. The net income for the CVC Group was 283.3 million for the fourth quarter and 881.9 million in 2015 with margins up 2.6% in the fourth quarter and 14.1% for the year 2015.

We go on to slide number 18, and I will speak about financial results. The adjusted EBITDA was 132 million in the fourth quarter, an increase of 6% vis-a-vis the fourth quarter 2014. As a percentage of net revenues, adjusted EBITDA represented 57.4%, a growth of 0.6 percentage points compared to the fourth quarter '14. The adjusted EBITDA for the CVC Group was 147.4 million for the fourth quarter '15. The adjusted EBITDA totaled 428.2 million in 2015, representing an increase of 14.5% compared to 2014. As a percentage of net income, EBITDA adjusted reached 52.7%, 0.3 points above 2014.

The CVC Group adjusted EBITDA was 445.8 million in 2015. We would like to highlight that the expenses with the acquisition of RexturAdvance and SubmarinoViagens were only accounted for at the end of the year. Once again, the non-recurrent expenses totaled 5.7 million in the fourth quarter '15, non-recurrent expenses in 2015 totaled 30 million, especially due to the compensation program stock-based of 19.8 million and M&A expenses of 7.1 million.

We go on to slide number 19 to speak about the net income. The net income for CVC was at 69.9 million for the fourth quarter, an increase of 0.8% for the period. For the CVC Group, the net income was at 72.0 million for the fourth quarter. Adjusted net income for CVC in 2015 totaled 204 million, a growth of 16.7% vis-a-vis the previous year. The adjusted net income for the CVC Group was at 203.6 million.

I now go on to the pages on slides 20 and 21, referring to the company cash generation. The cash flow consumption for the fourth quarter was up 16.5 million, strongly impacted by working capital that had a growth due to the consumer behavior. Consumers continue to buy their travel packages closer to the boarding day besides the extraordinary advance

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payment to international suppliers due to the end of the tax exemption on remittance abroad referring to tourism services that took place on December 31, 2015.

It is important to highlight that the advance payments made to suppliers on sales that has already been carried out uptil December 31, will be paid in the first quarter 2016 soon after check-out, which means that this effect will be normalized at the end of the first quarter 2016. If we normalize working capital by a reduction of five days between the date of sale and the date of trip, as well as the extraordinary effect of payment to supplier, the operational cash flow will go from a need of 16.5 million to a cash generation of 236 million for the fourth quarter 2015 and a need of 35 million for cash generation of 217 million in 2015.

It is important to highlight that the performance of the purchase of travel observed among consumers into 2015 that impacted our working capital in a typical way should be neutralized in the year 2016 as there hasn't been an exacerbation of this behavior, quite the contrary. There has been a reduction of the gap of seven days to five days in the fourth quarter 2015.

We now go on to slide number 22 to speak about investments and capital. Investments totaled 8 million in the first quarter and 10 million in the same semester before that. Once again, in the fourth quarter 2015 it was 12.9 million, investments totaled 32 million in 2015 or 39 million for the SubmarinoViagens. The return on invested capital was up 39.9% for the last 12 months. And if we normalize the returns of the extraordinary payments made to international suppliers, our return on invested capital would have gone from 40% to 47%, very close to what we saw the previous year of 48%.

We go on to slide number 23, and to speak about indebtedness and financial expenses. In December of 2015, our debt was 285 million, already considering the acquisitions of 53 million. If we take into account the advances, the net debt was at 537 million in 2015 and 124 million in 2014. Values representing 0.3 and 1.2 times EBITDA accrued, the debt captured in 2015 [ph] was in foreign currency fully hedged by swaps at an average cost of 105% of CDI. The net indebtedness after the extraordinary payment to suppliers would be 24 million, representing 0.9 times the EBITDA for the last 12 months.

Financial expenses increased 70% in the first quarter due to the interest rate and the indebtedness due to acquisitions that generated 7 million in the period and because of the advance payment to international suppliers. If we take into account the debt and financial results, the financial debt grew 20% in the year 2015.

Once again, we would like to thank all of you for your participation in this conference call. And we will now go on to the question-and-answer period.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we would now like to open the floor for questions and answers. (Operator Instructions) Mr. Andrea Teixeira from JPMorgan would like to pose a question.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Hello. And I would like to ask three questions. First, regarding the taxes that you had to pay if you're transferring this. The second question, of course, there are reserves and you have confirmed bookings, now what do you think about the coming bookings? We would like to know the magnitude of this for the coming vacation, if you could, once again, remark on these changes and if you observe any pressure from the regulating agencies to perhaps cancel the fines if the person wishes to cancel bookings due to the present day situation, what would happen at CVC if they have still face these booking cancellations.

And I would also like to hear from you, what is happening with e-commerce?

I understand that there has been a significant growth that your platforms have been streamlined considering that the packages are done 90% online. How do you do this on the e-commerce platform? Are you able to sell most of your packages online? Thank you very much.

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

Thank you, Andrea. This is Falco. Regarding the tax that you referred to, once again, this is a work that we're carrying out with this sector with the government. We hope that there will be an agreement of 7% soon. Yesterday at the account tribunal, one of our questions received a positive answer. Therefore, we believe that very soon we will have this regulation of 10%. So far we do not have this and we feel somewhat comforted by thinking that this regulation should come out at the end of the month.

As you mentioned yourself, there was a doubt while this was not being resolved. Once again, we are dissipating the doubt that company will have to make some financial adjustments, but I do believe that we worked with the right measure.

Regarding the Zika virus, once again, the price will include the 6% as we do not want to run any risks that may happen in the future. When it comes to the Zika virus that has severely affected in North East, this has an impact both domestically and internationally. We have not seen great deviations, although the younger women seem to have changed their destinations.

Well, there has been a change among destinations according to the age brackets, but we haven't seen significant changes in either direction. And so far, we have not had a significant problem with cancellations as the destinations are simply being changed.

Well, Zika has gone to the south and has gone to other areas, and despite this we have not seen any cancellations. Therefore, so far, we do not foresee any problem that will be significant due to the Zika virus.

When it comes to, what we call, the e-commerce, this is CVC's great challenge. The challenges very correctly are comparing platforms, especially for analysts. We have a platform that works 70% with commodities and we have a platform that in 80% of the cases sells commodities. It's very difficult to compare growth rates and conversion rates. The comparison will never be fully equal. The SubmarinoViagens platform is the one that is more comparable to our normal and traditional peers.

## Operator

Ladies and gentlemen, please hold. The CVC conference call will resume in a few instance. Ladies and gentlemen, you can proceed with your questions. Thank you very much.

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

We do apologize once again for this drop in communication. We are in the tourism market. And we really don't think that this is something being done by our competitors.

Let us go back to the issue of e-commerce. Once again, we were referring to the fact that we have different platforms for different products. In Submarino, we have 60% to 70% of tickets and in the other platform we have commoditized products which are different, of course, and we sell 60% packages, it is much more difficult to sell packages through e-commerce and to sell commodities.

And the problems that we have had can be considered to be minor compared to what we are doing. The results of the platform have been quite interesting. And so the answer to your question is yes.

We are going to have to develop a platform for dynamic products, allowing the client to choose products more dynamically and we should increase everything so that clients can buy automatically. And this is part of working in the online universe, which is quite different from working in the traditional stores, simply to mention an example.

50% of the tickets that are issued are normally corporate tickets and this example shows you the differences in terms of development and how much more complicated it is to work with dynamic packages in a simple way and how difficult it is to truly work with the accounts.

## Q - Andrea Teixeira {BIO 1941397 <GO>}

And Falco, if you could work about the bookings for the first quarter and the behavior of bookings in this first quarter?

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

Good afternoon, Andrea. Well, in January, we always have difference when comparing months because we have an additional day or one day less. The sales was somewhat



lower vis-a-vis 2015. During Carnival, we once again had a slight growth, and there has been that difference between February and January, therefore.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

If you could please repeat your comments, the sound was somewhat low.

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

January had one day less than 2015, so our sales were somewhat lower vis-a-vis 2015; and February, we are somewhat above, adjusting this by Carnival as we have an additional day in February, we should be able to offset the drop in January with February. Once again, we do expect this year to be more difficult with growth closer to what we have observed in the last few months, but we are working with a control of expenses and this has been favorable to our margins.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

And the synergies and if we go back to your cost, you work with a base of 30 million, should we analyze this or has this been probably absorbed in the first quarter and will this be recurrent in the coming quarters?

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

Well, if you imagine this is fully recurrent, we captured a small part, 132 million in the fourth quarter, a lower part was captured in the fourth quarter. Once again, we carried out the acquisitions in September. We began to implement in October and November, so this was partially captured. We have increased the value of synergies in the first quarter and in the second semester, this should attain its maximum potential. If we begin in the fourth quarter last year, we will get to those 132 million that will be fully captured during the year.

**Q - Andrea Teixeira** {BIO 1941397 <GO>}

Well, you were referring to what was happening within quarters. Now is that a trend? Has it become exacerbated?

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

No, it is very similar to what it was. We observe a very high growth of sales for boarding and the short-term, especially in the month itself, in the coming months, and then subsequently in February, for example, we have observed a very high growth, which is not normal for February, and the growth in March for the month of April. And the historical trend is to have a slight drop for bookings that are done two or three months into the future.

The good news, nevertheless, is that will continue to observe a growth in bookings for the quarter compared to previous quarters, but everything is done at the very last minute. Thank you.

**Operator**

Mr. Franco Abelardo from Morgan Stanley would like to ask a question.

**Q - Franco Abelardo** {BIO 17416219 <GO>}

Hello. Good afternoon to all of you. Thank you for taking my question. I also have some questions. Beginning with your working capital, there has been the exacerbation because of the advance to suppliers, even when you normalize, there will be that impact of buying the tickets very close to boardings. There should be an improvement, when you incorporate the balance, the working capital with your hedging should begin improving in 2016 and improve cash generation. The second question, very clearly you have had a greater growth in the domestic segment and what is happening in terms of bookings for CVC domestically and internationally?

I see that the domestic bookings represent a great deal for CVC. And if you expect this to continue on into the future? These are my two questions. Thank you.

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

Franco, good afternoon. When it comes to the working capital, you are right, we had more with CVC stand-alone where we maintain that five-day gap and our working capital should become neutral in 2016 due to the low growth, which means that the impact would be very low.

Now Rextur has a more favorable working capital structure as it received one day before it has to pay its suppliers. And this is the consolidated structure of the Group, which means there should be an improvement.

When it comes to the mix, two-thirds and one-thirds at present. The domestic market represents 70% to 72% of our sales. Looking forward, and despite the present situation, we hope that we will recover this. The international sales had a very strong drop in the fourth quarter 2015. In January and February, we have seen a lesser drop. People are getting used to the new level of the dollar. And according to the company history, this should continue to improve. In the future, sales will be more difficult in the international market, but with a recovery during the year.

**Q - Franco Abelardo** {BIO 17416219 <GO>}

When it comes to your expansion plan and your franchises, you seem to be somewhat below your plan with 90 new store openings. Once again, which were the store closings if you have observed any stores closing the larger stores based on the initiative of the franchisee or on the initiative of CVC because of the results. And related to that question, if you could speak about the profitability of the franchisees? Last year the profitability remained stable and without a doubt the franchises saved cost pressures and problems due to inflation. Now is this stability continues to be appealing for franchisees or if they have begun to complain or if you are renegotiating some of your contracts? Thank you.

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

When it comes to our expansion plan, we inaugurated 120 stores during the year, includes 110 in 2015 and we had 20 stores closing, which means that we had a net of 90 stores among those 20 stores that were closed, some were working with the travel agent channel. And we centered this service in two or three stores in the center of the country.

In practice, this has not had an impact on sales, because what we did was to centralize our operations and we have 12 stores in shopping centers and streets and what we're doing among franchisees is to work with a recovery plan if this does not lead to results, we end up closing the store or we reallocated in some cases.

We closely follow-up on the profitability of our franchisees, the new stores are at a level of 90% or 87% of the potential that we have estimated because of the current situation, but it continues to be an appealing business from the profitability view point, there are good margins, there is no working capital, there is no credit risk. Therefore, it continues to be a good business and CVC has the technology and the infrastructure, and CVC pays for the installment cost, all of this has been a help; and evidently, we will continue to work to improve the situation of franchisees.

As we mentioned, we have some cases, we have already hired a consultancy to help our franchisees with the leases. And in some of our own stores, the results have been very good and we're now going to extend this to Brazil with a significant cost reduction. What we have always done in an ever more difficult market is to work very closely with our suppliers, every time there is a campaign or an additional campaign for sea travel, we transferred this additional incentive to the network, maintaining our traditional margin in these more difficult moment, this is what we are doing with our franchisees.

**Q - Franco Abelardo** {BIO 17416219 <GO>}

Thank you very much.

## Operator

Mr. Fabio Montero from BTG Pactual would like to ask a question.

**Q - Fabio Montero**

Hey, good afternoon to all of you. I would like to refer to added value if you can give us an idea of the market size or a medium term goal that you are attempting to obtain as this was an important tool to offset the drop of demand in international traveling. You have spoken about leases and partners and much more. Thank you.

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

Hi, good afternoon, Fabio. If we look back at 2015, we reached a value of BRL400 million of sales of value-added products. As we mentioned, there was a growth of approximately 30%, but there is still the potential to increase our penetration. In 2016, we would like to at least repeat this growth, this is a product that was called chewing gum by the network and it is something that has helped a great deal in the franchisee profitability. It allows franchisees to improve their profitability and sell an additional product.

## Q - Fabio Montero

Fogaca, do you have your market share in these services? You spoke about a market share in the retail market, as a whole, but in these services, do you have an idea of your share?

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

We don't have a figure, to be very honest. But it must be below our market, up 13%, because we began just recently in car rentals, we began to invest more in 2015. And, once again, in destinations, we began last year and our full-service package is part of this offer, this is something that has begun just recently and the tickets last year had a significant increase. Without a doubt, we have a lower market share than the total which today is 13%. Thank you.

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

This is Falco. This is a good business, and when the business is good, it is good for everybody. For us, we maintain an average ticket, which is very good for the franchise. They are able to obtain commissions on the different products. Now for the supplier who is at the end, this is also very propitious because tourists normally disembark there and they had to make sales efforts to capture the tourists that were disembarking there in a very defuse way to try to sell towards our car rentals, the effort was enormous.

Now for the consumer, which is our main goal, this is very good. Instead of spending their money in different areas, they can do everything and even in a single package and even pay in installments. This is a very good business, something that we began that has had very good acceptance and we think we will continue to see an increase in our growth rates.

## Q - Fabio Montero

Thank you very much.

## Operator

Mrs. Nicole from Bank of America would like to ask a question.

## Q - Unidentified Participant

Hey, good afternoon to all of you. Thank you for taking my question. I have two questions. First on the level of promotions, your partners of airlines and other hotels. They're still working very aggressively. And if they are working aggressively, how long will they remain this way?

I imagine that the airlines have reached full capacity, so how long will the airlines continue to work with this very aggressive level of promotions?

My second question refers to the behavior of your new stores. And how do these new stores differ from your traditional network in terms of average prices, connectivity, return,

simply to understand if the new stores are geared more to the domestic market with a lower ticket. But despite all this, are they able to achieve higher productivity considering the lower costs? Therefore, I would like to better understand, what is happening with the new stores that you are inaugurating in the country?

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

Hello, Nicole, and thank you. This is Falco. First of all, your question is a question we have heard often, not only in Brazil, but worldwide. The airline companies have a certain capacity. And when there is a drop in demand, the initial movement is a war on prices and, secondly, a very aggressive campaign. In 2015 we had a war on ticket prices and then the companies decided to work with full capacity. I think that we are now at Phase 2 of the problem. If we look at how the companies are behaving, and of course, this has to be considered case by case, generally they are all reporting a cut in capacity to be able to adjust the offer of seats to the new demand.

Having said this, we imagine that the ticket price war will decrease. It is very difficult to say that it will end, but it will never be similar to what we saw last year, because it is no longer necessary. At least this is what we saw at the end of the year.

As we tend to say CVC is very resilient, we have already been through these price wars. We have been through a stable supply and we work with our suppliers that are ours [ph] where they have greater difficulty, at lunchtime or other periods.

And it is our understanding that there is a price volatility in the market, but through time the consumer will end up buying before, because they will buy at a lower price and perhaps this will go away with that new behavior of buying at the very last minute. Perhaps, they can buy in an environment with less volatility.

Well, the bottom line of the stores is very similar to all stores when we go into the hinterlands of Brazil, evidently, we have less revenues, but several stores are central stores for several regions.

Neighboring regions will buy from there and the prices are much lower in this new stores that we open in Piripiri. I was there at the inauguration. It is a town with 62,000 inhabitants and it is in front of a church, a very pretty church, it will be able to observe it in our release. And, once again, the leases are compatible with Piripiri, something that we could never imagine in larger centers.

Basically, what is important is that the final results for franchisees is very good. The returns are very similar as the costs are decreased and we continue to offer them help. There are more people in the hinterlands are low, their revenues are lower. And when we mentioned that 50% of our bookings are from the rural towns, there should be no change in this, because we're going to continue with this process of penetrating rural towns. This region will tend to grow faster.

## Q - Unidentified Participant

Thank you very much, Falco

## Operator

Mr. Robert Firth from Bank of America would like to pose a question.

### Q - Robert Firth {BIO 1983818 <GO>}

Good afternoon everybody. And once again, thank you for taking my question. I think that consumers are very concerned with counterparts and competition, could you remark on this?

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

Hello, Bob. This is Falco. If I understood your question, you mentioned that consumers are concerned of who they are buying from. In this environment, CVC has a competitive edge. We are a publicly listed company. Our results are on Internet, anybody can look at our results and offer their opinion on us. Of course, this is an advantage compared to companies that are not listed, you don't know how long those companies will continue to live.

We observed some of this when we saw the growth of the travel agency channel growing somewhat more than own stores, which means that we're stealing shares from independent sellers and these independent agents do not want to run any risk. What they want is a safe port. In times of crisis, this represents an advantage for us, because it offers greater stability and we are able to show our results.

Once again, we are a sound company in the sector and I do believe that consumers take this into account. And when they work with travel agents, both come out winning. There is this movement, we benefit somewhat from it, and it helps us to gain somewhat greater market share.

### Q - Robert Firth {BIO 1983818 <GO>}

And which has been the demand for the Olympic Games? Is there an opportunity for joint venture, for example?

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

Very similar to the World Cup, where during the World Cup event we did not receive any benefits, of course the contrary, we were hampered, the World Cup was in Brazil, the Olympics will be held exclusively in Rio de Janeiro, we end up participating but not as one of the main players.

### Q - Robert Firth {BIO 1983818 <GO>}

What is the priority? Are the tickets for the game, and for the -- in the World Cup these tickets were being sold by FIFA and presently for the Olympics they're being sold by the Olympic Committee. And the package is sold without tickets are somewhat less attractive?

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

Now if you have the opening of 90 hotels in Barra da Tijuca, which was happened the day after the opening of the Olympics. What you have is a very large market that has been created and, once again, we can go after this market, geared towards tourism. This is what we did during the World Cup. This is how the company can benefit. Somewhat after the event taking advantage of the infrastructure of the event and the hotels that were built. In the future, once again, we will also depend on that demand, this ends up being a good business for us. On the date of the event, the business will be less attractive; subsequently to the event, this will become more appealing.

## **Operator**

(Operator Instructions) Mr. Franco Abelardo from Morgan Stanley would like to pose a question.

## **Q - Franco Abelardo** {BIO 17416219 <GO>}

This is a very quick follow-up question regarding M&As and the opportunity for new acquisitions. We have seen two important acquisitions with SubmarinoViagens and RexturAdvance. Perhaps you will find new opportunities in other segments or in other channel that may complement CVC activities, taking advantage of this weak moment in the market to consolidate the company, or is your focus integration and continuing on as you are?

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

Hello, Franco. This is Falco. And true, yes, as any other company, we're always on the lookout for the opportunities that surround us. We're looking for companies that will enhance the market horizon that we live in.

Rextur has brought us a corporate part and SubmarinoViagens has brought us those who navigate on Internet. CVC used to work more with packages before, evidently if we detect a company that would be interesting to acquire, we're always thinking of small companies and some things that can complement the company or bring in new revenue stream or the opportunity for cross-selling or synergy. This is part of our business, not only to improve what we are doing. And, once again, we distribute the cash generated through dividends, as we have always done. Thank you.

## **Operator**

With this, we would like to end the question-and-answer session. We will now give the floor to Mr. Falco for his final remarks.

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

Once again, I would like to thank you for your participation, for the time that you had given us. If you have any further doubts during your analysis, we are at your entire disposal with our IR team, myself, Fogaca and the entire team. And let us go to the market, the market is more difficult at present, but we understand that the fourth quarter is a proof of our

resiliency. People in a different way continue to go on vacation, they have changed their destinations, they are buying closer to the boarding period, but we have not observed that people are no longer taking vacation.

Last year we had 400,000 passengers. We went from 3.4 million to 3.8 million passengers. Of course, the efforts have been greater to be able to offset the market conditions, but this shows us that we do have a very resilient market that the passengers are there; and with our value proposal, we should be able to increase our work.

Once again, we are at your disposal. Thank you very much for your attention.

## Operator

The CVC conference call for the results end here. Thank you very much for your participation. Have an excellent day.

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