Q1 2014 Earnings Call

Company Participants

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

Other Participants

- Unidentified Participant

Presentation

Operator

Good morning. Welcome everyone to CVC's First Quarter 2014 Results Conference Call. Today with us we have Mr. Luiz Eduardo Falco, CEO and Luiz Fernando Fogaca, CFO, Investor Relations Officer.

Today's live webcast and earnings release may be accessed through CVC website at www.cvc.com.br/ir. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After CVC's remarks there will be a question-and-answer session. At that time further instructions will be given. (Operator Instructions).

We have simultaneous webcast that may be accessed through the company's website. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

Before proceeding let me mention that forward-looking statements are based on 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 the conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Luiz Eduardo Falco, CEO. Mr. Luiz Eduardo, you may begin your conference.

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

Good morning everyone. I'm pleased to hold the conference call to discuss the results of the first quarter of 2014. For today's agenda we will start talking about the 1Q results then we will talk a little bit about April operational performance and then we will open for Q&A.

To start with slide number three where we present the main highlights for the quarter. During the first quarter of 2014 we have continued to foster our sales channels through the open of 81 stores in the last 12 months which are located mainly in cities where we see opportunities to capture additional market share. We have also increased the productivity of our major stores through our sales of initiatives such as increasing advanced product availability, training for our franchisee sales force and development of our new promotional materials contain information about our primary destinations leading to a 13.2% increase on the same-store sales on the periods.

We continue to develop our online channel by enhancing our online platform increasing online product availability and implementing more robust analytics for the customer data. We have also created a new product area focused on short trips, thereby expanding into a new segment for CVC. As a result for these initiatives the conversion rate for the CVC.com has doubled in the last 12 months and we posted a strong growth of 125.4% first quarter '14 against '13. Regarding our product portfolio we have continued to leverage our long-standing relationship with our suppliers to improve the value proposition of our travel packages for the customers. We held several promotions which we call Mega Promos in the first quarter with TAM, Gol, American Airlines, Iberia and Copa. And we developed new commercial agreement with partners such as in hotel, Costa do Sauipe, Iberostar and Melia.

Additionally over the last 12 months we have more than doubled the number of international hotels in CVC portfolio that CVC negotiates directly.

We have also continued to increase the breadth of our product portfolio launching new exclusive CVC European circuits and a customized tour on the cost of Bahia. Finally we are proud to share with you that CVC was appointed by Brand Analytics and Millward Brown, two international research institutes as one of the top 50 most valuable brands in Brazil and it was strength (inaudible) that CVC was the only tour operator to receive this distinction. In slide number four we will cover the booking performance.

Bookings increased significantly in first quarter 2014. 20.2% versus the same period of previous years. It's important to note the consistent growth across all the channels specifically in the online channels. If you go to slide number five we cover the performance of the bricks and mortar channel. Same-store sales grew 13.2% versus a decrease of 4% in the first quarter of 2013.

Since last year we have increased our efforts on the productivity of major stores not only through the actions mentioned [ph] previously, but also slightly [ph] the sales target for sales force in (inaudible). Regarding the expansion plan we opened 20 stores on the last quarter and 81 on the last 12 months. Our expansion plan is based on just special models run by over our special team and field knowledge provide by our local master franchisees which achieved to capture additional market share and generate profitable growth for our franchisees.

Now we pass to our CFO, Mr. Fogaca to carry on.

Luiz Fernando Fogaca {BIO 18466257 <GO>}

Good morning. On slide six we will cover the boarding and net revenue. Consumed bookings grew 18.7% over the first quarter 2013 as a consequence of the sales growth in the previous quarters. Net revenue was R$185.7 million in first quarter, 2014, 13.3% increase from 163.9 million in first quarter, 2013. Net revenue as a percentage of consumed bookings was 14.3% in first quarter, 2014 a decrease of 60 basis points from first quarter, 2013. The decrease was mainly related to a higher percentage of international boarding which has lower margins related to domestic segment in terms of percentage.

Average international margins were also affected by a higher sales mix of tickets to US theme and amusement parks such as Disney, Sea World and Universal more commoditized products that reached over 5% of our total international sales compared to 1% in first quarter 2013.

And on slide seven we will cover EBITDA and adjusted EBITDA. As a consequence of the items mentioned before our EBITDA totaled R$97.6 million in first quarter, 2014 20% higher than first quarter, 2013. The adjusted EBITDA was R$100.7 million in first quarter '14 an increase of 15% compared to previous year.

As a percentage of net revenue adjusted EBITDA represented 54.2%, 80 basis points higher than first quarter, 2013 driven mainly by the, by illusion of general and administrative expenses. Non-recurring items were limited to stock options and non-recurring bonuses.

Page eight we will cover net income and adjusted earnings. As a consequence of the items described before and also due to the increasing financial expenses which we will cover in detail in a few minutes.

Net income totaled R$39.3 million in first quarter, 2014 compared to 36 million in first quarter, 2013 representing an increase of 9.1% year-over-year. Adjusted net income by non-recurring expenses and non-cash items increased 9.7%. It's important to emphasize the decrease in the number of non-recurring items.

When you go to page nine, we will cover cash flow and working capital dynamics. First of all it's important to mention that first quarter presents a worst working capital dynamics due to the payment of high seasonal suppliers. In first quarter 2014 the cash flow used by operational activities. It was 65.2 million versus 79.6 million in first quarter, 2013 an improvement of R$14.4 million primarily [ph] due to the growth of net income and improving working capital. Working capital, it's number of days decreased 37 days from 42 days driven by a higher gap between board bookings and volumes.

On page 10 we can see that we have a asset-light business implying that there are no neither investments in assets such as aircraft or hotels or neither in fixed assets. Our investments are mainly related to software and IT systems in order to support our sales. Investments totaled R$4 million in first quarter, 2013 and R$4 million in 2014 representing 0.4% of the bookings in both periods. Return on invested capital was 30% in the last 12 months ended March, 2013. 260 basis points higher than the same period ended in March, 2013.

This growth was attributable to the growth in EBIT, a reduction in assets and higher efficiency in the working capital as previously mentioned. Going to page 11. We will cover financial performance. Factored receivables in March 2014 and 2013 were R$230.2 million and R$340.7 million respectively. Note that exclusively for managerial purpose CVC had factored receivables to accounts receivables and consider that amount as a debt to recover its capital needs.

Taking that into account net debt was R$412 million in March, 2014 and R$518 million in March 13, an improvement of almost R$107 million. The decrease in factored receivables was related to the cessation of factoring banks slips and checks in line with the company strategy. Currently we factor only credit card receivables at the lower rates and tenors when cash is needed. Financial expenses were R$29.3 million in first quarter, 2014 versus R$25.6 million in first quarter, 2013. This decrease was due mainly to the following factors. An increase in the CDI rate to 2.36% in first quarter, 2014 versus 1.61% in first quarter, 2013. An increase in the IGP-M index which applies over earn-out due to the founding shareholder. An increase in bank slips and fees associated to the increase of 20.2% and also a mix shift towards [ph] bank slips and checks which came from 30% in first quarter, 2013 to 34% in first quarter, 2014.

On page 12. I will return to Falco.

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

Okay, finally on slide 12 we will cover now April, 2014 sales performance which was reject [ph] of notes to the market disclosed last night. April is the month that you should make your analysis with a little parsimonia [ph]. Since April this year comparably free to last year it is a complete different dynamic. April this year we have a lot of a combined holidays, national and local holidays which created almost a dead working week in terms of production.

Even so when we see the numbers, we see that the bookings they grew 2.7% in April 2014 against 2013. And when you normalize this datas we've without these holidays it would be stayed very, very close to 10.6% which means double-digit comparing the same days without this holiday.

Additionally when we see April 2013 and the second quarter 2013 we present a very high booking growth rates of about 24.5% and 25.3% respectively over 2012. In March 2013 after I joined the company we started to implement several actions to return the historical growth rates presented by CVC in the past. One of the first action was to increase product availability. We almost doubled which combined for the [ph] measures result in a very strong booking growths part of it stands top sales from previous periods. If we consider April's bookings CAGR from 2012 to 2014 which means three years we come back and we reached the 13% in line with our historical growth path.

At this moment once again I want to thanks for your attend. And we are now starting our Q&A.

Operator

Okay. Okay. Okay. Okay.

Okay. Yeah.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Laurie [ph] Sarah from Morgan Stanley is like to make a question.

Q - Unidentified Participant

Yes, good morning and thank you for taking the question. I want to get start with sales a bit, as we are now closer to the World Cup and I know it's been a bit uneven with different, the company is not giving inventory maybe now giving inventory, but as we're sitting here in May, how do you see the next two months shaping up?

Would you expect that kind of lower growth in April to continue for the rest of the year because of some of the bottlenecks you've talked about? Or would you see, expect to see improvement for the rest of the quarter based on, I don't know some of the suppliers unlocking some inventory. And then I appreciate your comment about you know moving into tougher comps as the company regained its footing last April. But as you think about a more normalized second half of the year we know how all this World Cup noise. What's your level confidence that you can continue to have a double-digit pace of growth in bookings despite the fact that a year ago you operating at a higher level? Thank you.

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

Yeah. Hi Laurie, it's Fogaca. Basically if we look May in terms of bookings, if we eliminate the effect of holidays of April we would expect that May bookings would increase more in line with normalized April. June of course will be affected by the World Cup in terms of the bookings and of course taking that into consideration June and also April because of the holidays and the baseline that last year was very strong in which we have increased to 25% in terms of bookings. We will see a lower growth rate in terms of bookings for sure in the second quarter. But the good news in relation to having holidays like April that affect negatively the bookings. In the other hand it helped the boardings. So, we have ended

April with very good growth rates in terms of boardings and we are seeing the same for May.

And considering that we have sold probably something like 90% of the expected boardings for second quarter. We will, we believe that we will reach a very good and reasonable growth rates in terms of boardings for second quarter. Even considering that bookings will not be as good as previously because of the nation factors. Going forward, if we look the other months that are not the work cut months like August, September, October, November the sales that we are meeting for those months now are very good too. So, we are continued to expanding our network, we continue to have a very good portfolio. So, if we exclude the work cut month, we continue to see a good growth rate for the remaining of the year.

Q - Unidentified Participant

So, if I understand correctly, you're saying that for the second quarter we should see boardings probably at a double-digit level, but bookings maybe more than that low to mid single-digit level?

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

Yes, something like that.

Q - Unidentified Participant

Okay. And then when you look at the shift to some other lower margin products. In international and some of the commodity products you mentioned. Is there anything, I mean you mentioned some new hotels and some both domestically and international, but do you see any offsets that can balance that out as you look forward over the course of the year?

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

In terms of the margins we're -- on a comparable basis in second and third quarter would have almost same effect as we have observed in the first quarter in terms of net revenue over boardings. But in term of EBITDA ratios we will continue to offset those effects of mix effect with G&A dilution expenses. So we -- and we see that second and third probably we will have this dilution in gross margin. But in fourth quarter, we see more stable margins compared to '13 because the mix that we are observing in first quarter are very similar to what we have observed in fourth quarter, 2013.

Q - Unidentified Participant

Okay. And then just last question, the financial expenses grow a lot in the quarter and you explained the factors that drove that well, but as you look forward from the first quarter. Is there a reason to believe that that trend of the op, the financial expenses growing much faster than the operating income is going to revert or do you expect that to continue as you get through the balance of the year?

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

It will not increase proportionally as they did in first quarter because we had the three effects which we don't believe we will continue. Of course the bookings increase was 20% that is linked directly with the bank slips and fees which is recognizing in the P&L in the moment of the booking. If we are seeing going forward lower bookings hopefully more close to the historical figures than the 20% observed.

That one we reduced the other two which is the CDI if you look back comparing the trend in last year as the CDI has increased gradually last year the difference will diminished in the next quarters. And in terms of the IGP-M it was the big that affected almost 2.4% only in the quarter. Of course, if we analyze that rate it will be much higher than our annual expected rates. So, we believe those effects will be minimized in the next quarters.

Q - Unidentified Participant

Okay. Thank you very much.

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

Thank you, too.

Operator

(Operator Instructions) I'll turn over to Mr. Luiz Eduardo for his final considerations. Mr. Luiz Eduardo, you may give your final considerations now.

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

Okay. Once again I want to thank you everybody to give this time to us and tell that the company is open here with Fogaca and our relation investor Mr (inaudible) to answer any further question that you have any time. Thank you very much and have a nice day.

Operator

Thank you. This concludes today's CVC's first quarter 2014 results conference call. You may disconnect your line at this time.