

Q2 2020 Earnings Call

Company Participants

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

Other Participants

- Olivia B. Petronilho, Analyst
- Unidentified Participant

Presentation

Operator

Thank you for waiting. And welcome to CVC's Conference Call for the results of the Second Quarter of 2020. Today with us, we have Mr. Leonel Dias De Andrade Neto, CEO and Mauricio Teles Montilha, CFO and Director of Investor Relations. This event is also being broadcasted simultaneously over the Internet via webcast, which can be accessed at www.cvc.com.br/ri by clicking on the link webcast 2T20. The presentation slides are available for download through the webcast platform. The information is available in reals and have been prepared in accordance with accounting practices adopted in Brazil, based on statements, guidelines and interpretations, issued by the accounting standard CPC.

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

Now, I would like to give the floor to Mr. Leonel, who will begin the presentation. Mr Leonel, good afternoon. Please go ahead.

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

Good afternoon to everyone. And I'll start as apologizing, we had a technical problem that was beyond our control. So, thank you very much for your patience. And I will try to be brief in my presentation, and so we will start by slide number 4. And here, we can show the priorities of the last 4 months. We reviewed the Company here, algorithmic, here we

FINAL

created. We also carried out an investment in credit and collection structuring. This is an area that wasn't properly structured and now we have improved our margins with this, and we also redeveloped trying to deliver what each business unit needs to best-case scenario. This is the peak of the pandemic. We're talking about the second quarter of this year. The pandemic started in the end of March, and therefore, the worst scenario is represented here. The company just practically did not receive revenues and we had lots of cancellations, but the great highlight is our financial soundness, and we were able to generate cash. And this is why today we have -- on June 6, we had our cash position of BRL1 billion, and we continue generating cash. And we have now over BRL1.5 billion, and we also had the capitalization because our investors and our shareholders trusted us. And here we had the first capitalization tranche. So the first highlight would be the financial soundness and we are up-to-date with all of our obligations. We have not delayed any of our payments and all our debts are up-to-date, and the company has significantly improved its financial soundness. Thanks to what we've done through all of our efforts on Slide 6.

You can see that there has been a recovery of tourism and we are leaders. Domestic tourism is growing in such a way that we will reach by the end of the year at levels that are very similar or very similar to what we had last year. Now international and business tourism is still very weak, but where we have the best competitive advantages is what is being recovered and we will be benefited. And all our operational side is a 100%. We did not have to dismantle our business.

So our figures reflect this. The bookings, the flight bookings reflect all of these actions. New purchases reflect all of this -- all our trade have supported us. So that we can provide better services to our customers. We are the only company that didn't carry out a strong reduction in headcount and we see this in our stores or in our multi-brand agencies. We can see that the movement is strong and everybody is betting on CVC and that we will be leaders in tourism. All our partners are with us in a sustainable way.

Now I will give the floor to Montilha, that will show you the results and at the end we will be at your disposal to answer your questions.

I have the feeling that we are facing technical difficulties and I will continue. For those that are listening to me, I do apologize for the technical problems that we're facing.

On Slide 8, the main highlights are the reduction of operating costs. We have carried out strong efforts in our structure. And we've been consistent and we've dropped investments that are not digital. So, during the second quarter, we had a strong reduction and the adopted measures resulted in drop of expenses of 47%.

Here on the next slide, we can see our credit and collection management, especially focused on the improvement of our portfolio. Now the balance of the portfolio dropped because sales dropped and we received payment, but we can say that our portfolio is sound, although we had losses but now these losses have been recovered and everything has benefited the management of this portfolio. And we have different management that is focused on control and profitability.

Now obviously, when we go to Page 11, we have a major challenge in Argentina. Argentina -- well, tourism hasn't recovered, the market is closed, the domestic market in Argentina. Flights were forbidden, now there is starting. In Brazil, we are selling flights in the domestic market and the sales are above 50%, in Argentina the sale of flights were only 10% and the loss in Argentina are a challenge to us, although the structure that we have in Argentina is smaller than what we have in Brazil.

We believe that Mr. Montilha is connected again.

Mauricio Teles Montilha {BIO 18725719 <GO>}

Well, good afternoon, this is Montilha speaking. Good afternoon. Can you hear me.

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

Okay, Montilha, as you weren't here I went up to Slide 11 that is the slide of Argentina.

Mauricio Teles Montilha {BIO 18725719 <GO>}

Thank you very much, Leonel. We do apologize for the technical problems. What is important, as Mr. Leonel already mentioned, is that we had cost reductions. We had a zero impact in revenue and we had a negative result in this quarter.

In our next slide, we have the highlight -- the cash generation of the quarter and of the first semester of the year that was in the first -- we had a positive cash position. What is important is that the company has its accounts receivable protector. We have received these funds. And we are trying to reschedule the bookings. Most of our customers received credits and we are rescheduling their travel for the end of the year and the beginning of next year. It's important to say that the priority of the company are too in terms of cash and that we are proactively working with our customers. And the second priority is to finance our growth, as Leonel mentioned, domestic tourism is recovering strongly and we are 100% prepared to finance the resale and the recovery of local business. And we received BRL300 million from the first capitalization tranche. So this is a sound company. We are at ease to honor all of our contracts, to continue selling, and to continue being the leader of tourism in Brazil.

On the last slide, we can see the company's indebtedness. The net debt is low. This is the debt that we believe is highly reasonable for the mid- and long-term. Now obviously, we're working with our creditors to refinance this debt to adjust the growing curves of the company, because of the pandemic, and our expectation is that we will end this negotiation this year. Once again what is important to highlight is that we recovered our financial position and we expect to go back to the normal calendar.

And now, I would like to entertain questions, and I will give the floor back to our operator.

Questions And Answers

Operator

So now we will have our Q&A session. (Operator Instructions) We have a question from Olivia from JP Morgan.

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

Olivia, good afternoon.

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

Good afternoon. Thank you for taking my questions. I have two questions. One is regarding Argentina. And you said that this is a closed market to tourism. It has not recovered. But I would like to know what you expect in terms of recovery trends? When do you expect to see more constructed figures outside of Brazil?

And the second question would be the competitive market. What are you seeing in terms of competition? I believe that the smaller companies are affected and less capitalized. What do you see in terms of online agencies or the other travel agencies?

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

Olivia, thank you very much for your question. Regarding, Argentina as a matter of fact, I am very conservative and even a little bit pessimistic. The economy is in dire straits and the impression is that the government cannot deal with the internal matters. What does this mean? There are restrictions, we cannot lay off people, although some agreements are ongoing and we have focused on this. And due to this, we cannot restructure our businesses. There are three companies, two are our partners. So we are discussing together with the partners possible solutions and the other one that is Almundo, that is a 100% ours. We just changed the management. Fabio Mader that is a Brazilian executive he is spearheading the business, so now we have total control. We manage finance, human resources, everything. So now we have focus, we have control, but we have been able to absorb a 100% of the technological management. This platform is operational in Brazil and which together with Amazon in terms of cloud infrastructure in Brazil. So, yes, we (inaudible) businesses. We are controlling things, but we believe that it's very difficult to predict. So we cannot reduce costs. I believe that we will reduce the scope of our businesses in Argentina before we start thinking about growing unlike what we see in Brazil that is already in a much stronger journey.

Well, regarding the competition, I don't believe that the strategic -- that our strategy is to improve because our competition is improving now. We -- as a strategy we want to improve, and in the short-term, we will be stronger because many competitors don't have capacity. And when the market recovers, we believe that people will start rescheduling in their travels and this is why Montilha highlights the need to preserve our cash flow to honor all our commitments with our customers. I believe that we will gain more market share, especially in the B2B business that is sales through third parties, through small branches, they continue operating and in this market we have more than 70% of market share and we will gain more.

So I believe that CVC is stronger because our competitors are fragilized. Now our stores and everything that we master is operating. Before we have 1,200 stores operating and working from the beginning of the pandemic. To the day only 10% of our stores are closed, a part of this 10% will start working and some new stores are being opened. So our infrastructure is operating normally, and we're gaining more market share. I am at your disposal. Should you have more questions.

FINAL

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

No, it's perfect. Thank you very much.

Operator

The next question is from, Eric.

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

Eric, good afternoon.

Q - Unidentified Participant

Good afternoon, Leonel and Montilha. Thank you for taking my question. My question is regarding finance. How you self-finance yourself? How do you see this in the recovery of the market? And what about default or losses as we have recovery and the distribution of your own portfolio or credit portfolio?

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

Eric, I'm going to start. Number one, we do recognize how this can be strategic in our capacity to compete. Recently, we've restructured our business and we have a business unit for all of the company. We have a new management, we hired an executive. We also worked with a consultant and we totally reviewed all of our businesses. Just, I'll give you examples of things that we have done. Today, we use much more technology and much more credit analysis and fraud analysis as a priority. We reviewed all the portfolio of our customers that will travel in the future, instead of sending this first to the bank. And we remain with what the banks rejects now. We have the consumer finance portfolio and we can transform this in a competitive differential. All our partnerships with the bank are sound. We have a partnership with Losango Brasil and Santander Bank. Everything is up and running and the portfolio -- and our portfolios are sound. We reviewed and we focused on collection and for our surprise the level of recovery were better than what we had predicted in the beginning of the pandemic. Therefore, we are optimistic. And it is obvious, we are focused on margin and profitability. Every time that we see the take rate, credit comes afterwards, but credit is very important for our margin because of properly managed portfolio gives us a financial differential. We are optimistic. I believe that we are bearing good news and the improvement has been constant.

Montilha, if you would like to add something, please go ahead.

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

Just two comments here. Number one, that we increased our provisions based on the COVID impact, and regardless of the future there is greater default because many people were caught by surprise because of unemployment or because of the lack of economic stability or a potential loss of job or loss of income. So we increased our provision.

So this -- during in the first semester and a little bit in the second semester, because of the prospective economic impact. So I would say that the portfolio has a reasonable provision for greater losses that had been provisioned. And my last comment would be is that we're focusing on the credit quality. When we see the future, we see that perhaps the mix won't change that much, nonetheless the quality of the mix of the portfolio, the quality of our customers, and we are eliminating risks. So our greatest focus is on quality and gradually this can rise a bit, but we will not have a significant change in the payment mix, but the quality of our customers is improving a lot here.

Q - Unidentified Participant

Thank you very much.

Operator

(Operator Instructions) We have a question from the Internet from Marcelo Arazi from BTG Pactual. The question is, what do you intend to do with the Argentine situation when it starts recovering? What do you intend to do in Argentina, when it starts to recover?

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

Marcelo, thank you for your question. We have an extremely conservative management be it in Brazil, be it in Argentina. The Argentine operation is ready. We couldn't change it. So everything is operational. We have to pay attention, because of the exchange rate, the exchange rate variation is great. So we have to pay attention to the exchange hedge and to be very conservative with margins. But when the market starts recovering, we will be ready to resume our operation, and we will also focus on the take rate and our profit. And we will be conservative. We prefer not to sell if it's not profitable.

In Argentina, we have to focus on control and margins. I don't know if I answered your questions. But I am at your disposal. But the situation in Argentina will only be clear as of the first quarter of next year. I believe that this year, we will have no novelty unlike Brazil, the pandemic has spread there, the economy has deteriorated and the domestic market has no volume. They were starting to see a number of flights. What we see in Argentina in terms of volume is what we had in Brazil during the month of June.

So this is four months ago. I believe that we will have a new view by the beginning of next year. Until the end of the year, I believe that we will see no changes and we will be very conservative in our actions.

Operator

So we have an additional question from Solomon from Equitas. I would like to know about the reserve expectations until the end of the year? How do you see the recovery?

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

So this is Solomon [ph] from Equitas. He wants to see what the reservation expectation is until the end of the year.

Solomon, thank you very much for your question. In the domestic market, in the leisure domestic market, we are becoming more optimistic of the trend that there are more flights now. There is a lack of capacity. The hotels are being booked. If you see the main leisure hotels in Brazil, there you even have a waiting list for the high season, and this is growing and we are selling day-by-day more.

I believe that by the end of the year we will have a strong November. We have Black Friday that is strong and I believe that as soon as we see the figures of the beginning of the year or the turn of the year, we will have 80% of what we had last year in terms of domestic tourism. I personally believe this. Now when we see the international market, unfortunately, on the other side, until the end of the first quarter of next year there will be no strong growth. We strongly depend on immunization, and so until then this market will continue very slow. And because most of the borders are closed and I do not believe that the borders will open in the upcoming three months.

Now, the corporate market, it's still weak. I continue with the same figures, now corporate, leisure, international, domestic. This year CVC Corp will have 50%, 60% of what we had last year. Thanks to the domestic market, I believe that 50% is a good figure. Next year we will end with around 75% of what we had at the end of last year, and I believe that 2022 we will have a 100% of what we had, and this could be a bigger market because we can gain more market from the relative point of view. I'm talking about the market as a whole. So, next year 75% and we believe that in 2022 the market will be fully recovered and perhaps bigger. So 2023 while the company will be bigger than what it was in 2019 and this is why we are working, but the good surprises is that the domestic market is not only recovering and our margins are growing. This is a combination because we closed business with our providers. They feel safe to work with us, everybody knows that CVC Corp will continue in the market. We have a financial health and everybody trusts us to do business with us. And this is why we have increased our margins. We have more intelligence, we have stronger customer management. Just everything that we've done has allowed our take rate to go up and this is something that will favor us.

Operator

We have one more question from the Internet from Roberto of ABC Brasil. He asks, you mentioned that there is a high inland traveling, can you tell me how much do these type of packages represent historically in CVC business and how much will these land packages represent?

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

FINAL

Thank you very much, Roberto. Historically land travelling didn't represent a great deal. I will talk about CVC. I'm not going to talk about the CVC Corp. We have the data. Now, historically this represented 18% [ph] of our sales (Technical Difficulty) 58% of our sales comes from this market. When we see the lease of cars it's higher than in the past, but this was never a very strong business. We were stronger in long distances, especially taking people from the South or the Southeast or the Northeast of the country and now we've made a great agreement with this land travelling like (inaudible) the coast under (inaudible) and we have been very successful in these type of packages. I hope, I was able to answer your question.

Operator

(Operator Instructions) So we are bringing our Q&A session to an end. So I would like to hand it back to Mr. Leonel for his final comments. Mr. Leonel?

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

Well, I would like to thank you once again. In my final remarks, I would like to state governance. I would like to highlight that today with the publication of this balance, we are up-to-date with all of our accounting obligations. We are not delayed in any type of accounting announcement. And I would like to thank the great effort by our legal and our finance team coordinated by Mauricio Montilha. And now our company is up-to-date. And I would like to remind you that everything, all the data here, our internal finance team raised all of these points and non-compliance. We were the ones that pointed out the problems and we have been extremely transparent. And many times, we have pointed out very clearly all of our risks, especially, the risk of the company's continuity. But this is part of the past. I trust and I'm certain that we have weathered the crisis. This is a financially solid company with a strong cash position that covers all the obligations with the customers. We are negotiating our debt, but we are negotiating in a strong, solid and transparent fashion. We will build a better future. The company is a 100% operational, financially sound.

We have invested in innovation, quality, revisiting our processes and revisiting our margins in detail. And we have been much more diligent in terms of cost and controls. And we have no doubt that we will continue leading tourism in Brazil and Latin America, and we are making the best of this moment because the company is highly encouraged and we are building the best team not only a team that know -- that has great knowledge in tourism, but now we have more intelligence and more know-how from CRM, management, governance, credit collections, technology innovation. So today, we do have a fantastic and encouraged team and our company has a great future ahead of us.

And this team is encouraged by a long-term project and then the long-term, we will build and we will be the leaders of tourism in Brazil. The pandemic will go away, the market will recover, and people will want to continue travelling, and CVC Corp will continue being a market reference, I would like to thank our shareholders and everybody from the market that is here and we are happy to show you that we have put our company up-to-date with all of our obligations. We will see you during the announcement of the next quarter.

So the results of the second quarter of 2020 of CVC has come to an end. Thank you very much.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript