J.P.Morgan

Latin America Equity Research
15 January 2014

CVC Brasil

Dominant Position in Underdeveloped Tourism Market in Brazil; Initiating with Overweight Rating

Initiation
Overweight
CVCB3.SA, CVCB3 BZ
Price: R$15.60
Price Target: R$20.00

Latin American Retail and Healthcare

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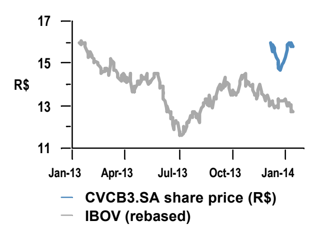
We are initiating coverage of CVC with an Overweight rating and a Dec'14 price target of R$20, yielding 28% potential upside. CVC is the largest travel agency company in Latin America and is Brazil's market leader, with about 11% market share in leisure travel. Brazil's travel market is still underpenetrated, but is expected to grow at a CAGR of 11%. Moreover, CVC's strong brand and largest exclusive store network should allow for market share gains, with typically high returns (2014E ROIC 30%). CVC has an asset-light business model based on franchised stores, while it operates under the merchant model in 95% of the bookings, which provides higher commissions. Also, we believe valuation is attractive at 13.6x '14E P/E, at a discount to international travel peers and Brazilian retailers, while the e-commerce platform represents potential upside to the case. Downside risks from compression of commissions, a trend seen in other countries, seems limited from this level (sensitivity analysis on page 24).

- **Brazilian travel industry is underdeveloped and should grow double digits.** The World Travel & Tourism Council estimates travel and tourism spending in Brazil at R$136 billion in 2012 and expects a 5-year CAGR of 11%. The recent changes in Brazilian demographics put traveling, which is a key discretionary consumption item, within reach of many consumers. We estimate leisure travel represents about one-third of the market, and travel agencies' (i.e., ex food and gifs) addressable market stood at R$34 billion in 2012. Furthermore, brick and mortar and online stores co-exist in Brazil due to consumer behavior.
- **Well positioned to exploit the increasing travel penetration.** CVC has the largest exclusive network of travel agencies in Brazil, nearly 800 stores under long-term agreements, and a plan for 100 new openings per year. Its brand is the top of mind in this very fragmented sector, targeting the emerging consumer. Thus, CVC bookings should outpace the market and grow at a 5-year CAGR of 13%.
- **Higher online sales are a potential upside.** Increased online penetration in travel sales is a global trend. Currently, it represents just about 3% of CVC's bookings, vs. 21% in Brazil, and 37% in the U.S. Thus, post the introduction of a new e-commerce platform in May 2013, this segment has an opportunity to accelerate bookings, and should represent around 7% of the bookings within the next five years.
- **Valuation look attractive and downside appears limited**. We initiate coverage with a DCF-based Dec'14 PT of R$20, which implies a '15E P/E of 14.4x, still at discount to international peers, and 28% potential upside. Based on our take rate benchmark to international peers, downside seems limited.

Price Performance



	YTD	1m	3m	12m
Abs	1.0%	1.9%	-1.2%	-1.2%
Rel	5.0%	3.1%	5.8%	19.2%

CVC Brasil Operadora e Agencia de Viagens SA (CVCB3.SA;CVCB3 BZ)

FYE Dec	2012A	2013E *(Prev)*	2013E *(Curr)*	2014E *(Prev)*	2014E *(Curr)*	2015E *(Prev)*	2015E *(Curr)*
EPS (R$)							
FY	0.16	-	0.80	-	1.12	-	1.39

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (R$)	15.60
Date Of Price	14-Jan-14
52-week Range (R$)	16.09-14.20
Market Cap (R$ mn)	2,023.87
Fiscal Year End	Dec
Shares O/S (mn)	130
Price Target (R$)	20.00
Price Target End Date	31-Dec-14

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Investment Thesis

CVC Brasil (CVCB3)

Overweight

Main opportunities include:
(1) Asset-light business model with typically high returns;
(2) Leisure travel penetration is still low in Brazil, and we believe CVC is well positioned to exploit the increasing penetration and gain market share;
(3) Almost 95% of bookings is under the merchant model with a strong focus on travel packages, which yield higher margins than cruises, tickets or hotel nights;
(4) Opportunity to grow more online, which is even lighter on assets; and,
(5) Attractive valuation with limited downside to the case, in our view.

Asset-light business model with typically high returns

CVC owns less than 5% of its store base (33 units), while it does not own any hotels or airlines. Most of its structure is based on a proprietary IT system to pack (bundle air tickets, hotels, trips, transfers, bi-lingual concierge, among other services) and sell tour packages, which requires relatively low capex needs to support expansion of its exclusive franchised network, with stores that require low initial investments compared to other franchised stores. As a result, CVC has a high ROIC, which we expect to stabilize at around 37% in the long run, up from 23% in 2013E. ROE is also high, and should hover around 40% in 2013E and 2014E.

Leisure travel penetration is still low in Brazil, and CVC is well positioned to exploit the increasing penetration and gain market share

CVC has the largest exclusive network of travel agencies in Brazil with long-term agreements (10y). The company's brick and mortar platform is comprised of nearly 800 exclusive stores at the end of 2013 with the broadest geographic coverage. CVC's plan is to open an additional 100 stores per year. Its brand is the top of mind in the sector and targets the emerging consumer. As a result, we believe CVC is well positioned to take market share gains with the increased penetration of travel in Brazil.. We expect the Brazilian travel market to grow at a 5-year CAGR of 11%, while CVC should grow its bookings by 13%.

Almost 95% of Bookings are under the merchant model with a strong focus on travel packages, which yield higher margins

About 80% of the company's sales are based on travel packages, which typically have higher margins than the sale of cruises, air tickets or hotel nights, as in a bundled package product prices becomes "opaque," allowing for better yield management. In addition, the fragmented Brazilian hotels market reduces the suppliers' bargaining power. In just about 5% of the company's sales (part of the cruises and air tickets), the company acts as an agent and receives a small fee for the sale of the products.

Opportunity to grow more online, which is even lighter on assets

There is a worldwide trend of higher penetration of online travel sales. However, in Brazil, e-commerce penetration in travel is low (about 21%) compared to other countries (US at around 47%). Travel is still highly aspirational in Brazil and consumers tend to prefer physical stores for high ticket purchases. Nevertheless, CVC introduced a new e-commerce platform in May 2013 to be better positioned for this trend. However, CVC's platform is still in its early stages and should roughly represent 4% of bookings in 2013E we forecast it to reach 7% in five years, but, unlike peers, mainly focused on packages and not unbundled products.

Attractive valuation with limited downside to the case

CVC currently trades at 13.6x '14E P/E, a discount to international travel peers and Brazilian retailers. Based on margin compression trends seen in the US and Europe, we believe downside is limited if Brazil moves toward the margins seen in developed markets. Moreover, we believe CVC has room to adjust the commissions paid to franchisees in accordance with market commission trends (Sensitivity analysis on page 24).

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Risks to Rating and Price Target

Main risks:
(1) leisure travel expenditure is discretionary and susceptible to downturns;
(2) Growth of online travel agents with focus on low prices;
(3) main competitor is supported by a big airline (TAM Viagens)
(4) other smaller competitors are trying to replicate CVC's model
(5) concentration in two major airlines;
(6) Significant depreciation of the Brazilian Real.

Leisure travel expenditure is highly discretionary. In the event of a steeper-than-expected economic slowdown in Brazil, demand for leisure travel may be significantly impacted (not anticipated in our estimates: JPM GDP 13E: 2.5% versus GDP 14E: 2.3%).

Growth of online travel agents (OTA) that focus purely on pricing may be disruptive. Online competitors such as Decolar.com, Booking.com, Submarino Viagens.com, among others, focus mostly on commoditized airline tickets and hotel nights, while travel packages represent a relatively small part of their businesses. As the market evolves and consumers become more internet savvy, there will likely be less intermediation. Consequently, OTAs' aggressive pricing and advertising can be disruptive and cause volatility for CVC.

Main competitor is supported by a large local airline. Tam Viagens, CVC's main competitor, is sponsored by Brazil's largest airline in international flights and a recurring number one in domestic flights along with Gol. This competitor appears to be trying to replicate CVC's business model, rolling out its expansion based on franchised stores. In addition, the relationship of TAM Viagens with its parent company allows for very competitive air ticket prices, which could eventually support an aggressive price strategy.

Competitors entering franchise model. Agaxtur, Flytour, Marsans, Nascimento, and Almeida Viagens (from Spain) are launching franchises. Their store concepts are very similar to CVC's in terms of layout and displays. A potential acceleration in store openings from any of these peers could cause headwinds for CVC's sales and store openings.

Concentration in two major airlines. TAM and Gol dominate the Brazilian airline industry, with about 76% combined market share in total passenger traffic – ~38% each. We believe this strong reliance on two dominant players in the market limits CVC's ability to negotiate better airfares.

Infrastructure bottlenecks may delay growth. The majority of Brazilian airports are running close or above full capacity, reflecting the lack of investment over decades. Thus, infrastructure is in need of significant investment. The Brazilian government recently announced plans to increase private sector involvement in airports, including concessions to operate some of key airports, such as Guarulhos and Galeão. However, such pre-agreed investments may be delayed or not be enough to solve capacity issues.

Significant depreciation of the Brazilian Real may affect product prices, margins, and demand. Although CVC's foreign exchange exposure on its balance sheet is fully hedged, part of its product costs, such as international packages and air tickets, are exposed to the U.S. dollar. Thus, significant depreciation of the Brazilian Real may adversely impact product prices, margins, and demand. Moreover, during periods of FX volatility, consumers tend to be more cautious in the purchase of international travel packages.

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The main highlights to the model are the following:
(1) Asset-light business model, with typically high returns;
(2) top of mind brand supported by consistent advertising;
(3) largest footprint of exclusive stores in Brazil;
(4) Merchant based model with strong focus on packages;
(5) Expansion through inexpensive and simple to run franchised stores under 10y agreements;
(7) Aligned interests among CVC, franchises and master franchisors;
(6) Opportunity to grow online with new platform;
(7) limited inventory risks;
(8) deleveraging from LBO to fuel earnings growth

Company Description

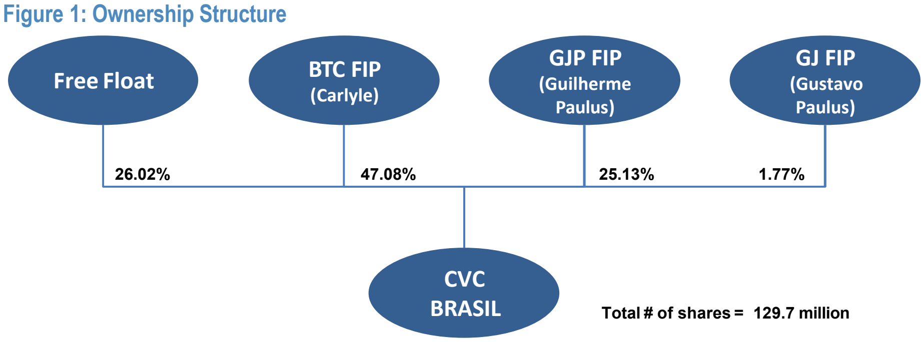
CVC is a Brazilian travel agency with brick and mortar and online operations. It is the largest travel agency company in Latin America and is Brazil's market leader, with approximately 11% of market share in total leisure travel spending. The company was founded in 1972 by Mr. Carlos Vicente Cerquiari and co-founder Mr. Guilherme de Jesus Paulus (GJP), targeting the emerging Brazilian middle income segment. In 2009, the Carlyle Group acquired a majority stake in CVC and began to implement changes to improve corporate governance and performance. CVC has its own distribution channel, with 750 exclusive stores (33 owned, 684 franchises, and 33 exclusive agents), more than 6,500 independent agents and an online operation, as of September 2013. Its portfolio has more than 1,000 different products and is composed of products from a simple air ticket to a complete package with hotel reservation, ground transportation, local guide and assistance, city tours, theatre tickets, etc.

CVC's Business Model

New franchise model, online platform and credit card agreement. These changes started to be implemented when Private equity fund Carlyle acquired 76.2% of former CVC from co-founder Guilherme de Jesus Paulus (GJP) in December 2009. Carlyle paid a total of R$705 million, of which R$385 million was paid in cash and the remaining through seller financing with the debt booked in the company. The payment was split into (1) R$160 million in 60 installments of R$2.7 million (last one in December 2014), (2) R$3 million per quarter until December 2014 and (3) R$100m to be paid in December 2014. As of September 2013, CVC owed R$144m to GJP. After the acquisition vehicle for this leverage buyout (CBTC) was incorporated, Carlyle (through fund BTC FIP) owned 63.6% of the company.

Carlyle was established in 1987 and is one of the world's largest global alternative asset managers with US$180 billion under management as of September 30, 2013. Carlyle invests across four investment disciplines (private equity, real estate, global strategies and global solutions). The most recent Carlyle investments in Brazil include Tok Stok (leader in furniture, décor and home furnishings), Ri Happy (largest toy retailer in Brazil),Scalina (leading Brazilian women's underwear manufacturer and retailer) and Qualicorp (public, QUAL3), leader in benefit management and health plan brokerage.

Figure 1: Ownership Structure

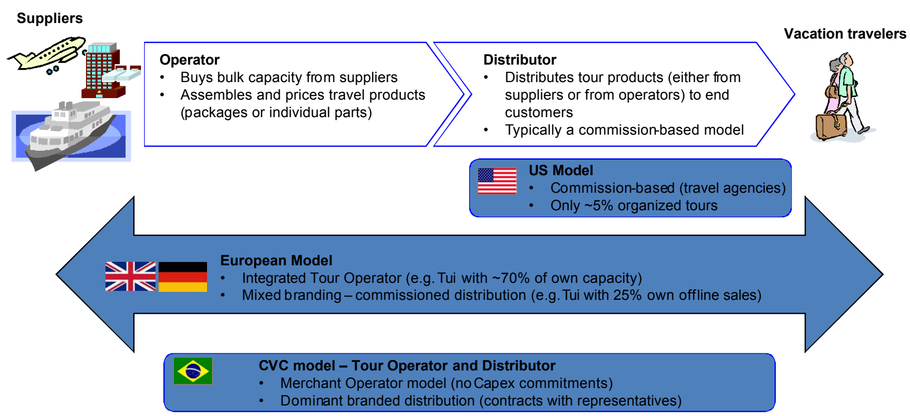


Source: Company reports. Note: Fully diluted number of shares 143.6 million

Asset-light profile (no ownership of hotels or aircrafts) and franchised expansion model allows for fast and low-cost expansion with reduced risk. According to CVC estimates, the company is the leading player in terms of gross bookings, with approximately 1% market share in the addressable market. Based on newspaper reports (e.g, Valor), we estimate that the second largest player, Decolar, is two-thirds the size of CVC in terms of bookings, while CVC focuses only on leisure travel, Decolar also embraces the business segment. Also based on newspaper reports, the third largest player, Submarino Viagens (part of B2W), is 16% of CVC's size, and the fourth largest player, TAM Viagens, is 3% its size. We believe CVC's leading position allows it to negotiate more competitive prices for its customers.

CVC acts as an operator and distributor, taking limited inventory risks. CVC operates and distributes travel packages and tickets (occasionally) but does not own hotels, airlines or cruise ships. In that sense, it differs from the European market, in which travel agencies such as Tui and Thomas Cook (both covered by European Beverages, Hotels & Leisure analyst Jaafar Mestari) own some of these assets. Therefore, we believe CVC is better able to adjust its inventories based on ongoing demand to assure product availability in key destination. Moreover, the bulk of the carried inventory can be returned to the supplier following pre-agreed prior notices without charge, allowing CVC to shrink or increase it according to the demand. As a result, CVC is asset light, and consequently returns tend to be higher; in 2013FY the ROE for both TUI and Thomas Cook averaged 17%, while we expect 23% for CVC. Also, CVC retains the profitability of an operator by opportunistically buying excess capacity from suppliers, usually at lower than market prices, and assembles the travel packages

Figure 2: CVC model is asset light and allows for bargaining power with suppliers and strong relationships with clients

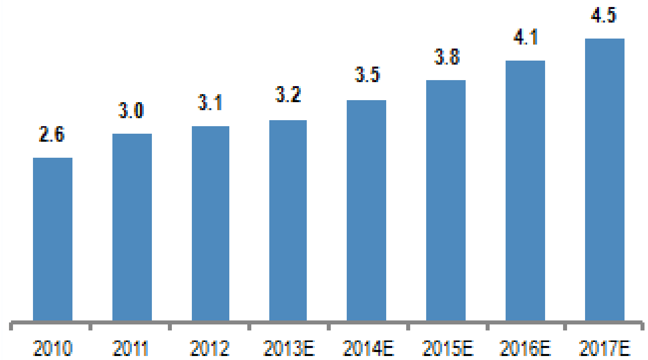


Source: J.P. Morgan and CVC.

Main Product Is Travel Packages

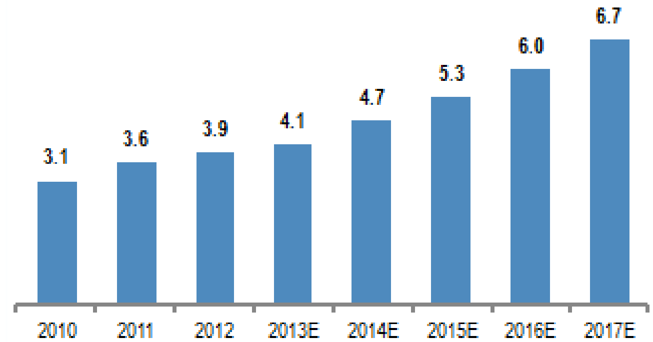
Strong focus on the sale of travel packages, which yield higher margins. Approximately 79% of the company's sales under its exclusive store network in 2012 were based on travel packages, which boast higher margins than the sale of cruises, air-tickets or hotel nights. The main reason behind the higher margins is that they allow for better yield management in hotels and airfares.

Figure 3: CVC total PAX
In millions



Source: Company Data and J.P. Morgan estimates.

Figure 4: CVC consumed bookings
R$ in billions



Source: Company Data and J.P. Morgan estimates.

Fast Expansion Given Franchise Structure

Growth through asset-light franchises. Starting late in 2012, CVC negotiated with its previously exclusive partners to convert them into franchises with 10-year renewable tenor. As of September 2013, CVC had 750 stores with only 33 owned. The vast majority of stores are operated through CVC-exclusive master franchisors or franchisees, some of them ex-employees who were given the right to operate and sub-franchise in certain locations (master representatives). CVC also has the right to acquire such franchisees for a pre-defined EBITDA multiple, particularly when they are underperforming, but CVC does not aim to increase its owned store base. Even though master franchisors lead the company's expansion plans, all franchise agreements are signed directly with CVC. However, the contract sets forth who will be the master franchisor responsible for supporting such franchisee with training and regional product ideas.

CVC plans to open 100 stores per year, and by 3Q13 had already identified 255 locations for new stores by 2015. The expansion plan focuses on exclusive representatives, i.e. CVC branded franchises, for100% of future openings. Thus, the company has been decreasing the dependence of independent agents as CVC's network sales continue to gain share over total sales.

Main franchisee focus is the sale. Unlike many franchised businesses, CVC's franchisees do not handle inventories, while commissions are usually received within a week of the sale. Consequently, CVC's stores are relatively simple to manage from a cash flow standpoint owing to a very simple structure and low managing complexity. This allows the franchisee and its employees to focus primarily on maximizing sales and commissions, which typically stand at around 12% of total packaged sales (about 90% of the total). This becomes particularly important when new CVC stores are designed to be operated by "hands-on" franchisees, mainly former salespeople from other CVC stores. Under the franchise structure, all franchisees have sales target agreements with CVC as well as a defined expansion plan within the master franchisor territory, while CVC has the right to acquire any of the stores based on a pre-agreed EBITDA multiple.

Franchisees have a 10-year exclusive agreement lock-up

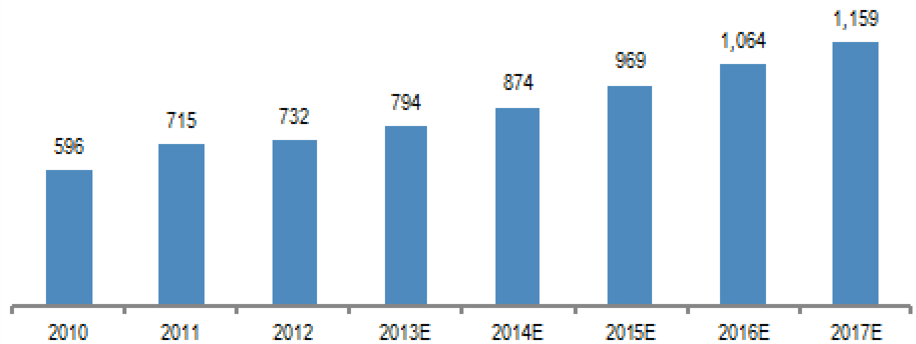
During 2012 and the beginning of 2013, the company re-negotiated its franchise agreements to strengthen its relationship with franchisees and foster footprint expansion to include three main clauses: (i) a 10-year exclusive agreement; (ii) call option by CVC based on past six months' store performance; and (iii) exclusive right for CVC to commercialize its products over the internet upon royalty payment to franchisees based on the ZIP code of sale.

Master franchisor structure is aligned with CVC interests; CVC seems well protected against underperformers and potential disruptions. CVC's master franchisees (MFs) receive higher commissions than regular ones. In addition, they receive additional commissions for the sale of packages from the franchisees in their territory. During 2012 and the beginning of 2013, CVC re-negotiated its franchise agreements, particularly with MFs, which included upfront payments for signing 10-year exclusivity agreements. In such agreements, the MF and CVC set certain performance metrics such as store openings targets in the MF territory. If the agreed-upon plan is not delivered, CVC can terminate the MF agreement. Meanwhile, if the MF wants to terminate the agreement, it is required to refund CVC the proportional amount based on the remaining contract period, with interest, plus a 20% penalty over the total amount received upfront. Additionally, if an MF terminates the contract with CVC, the franchised stores in its territory remain with CVC once all 10-year franchise agreements are signed with the company, not the MF.

There are at least 20 master franchisors nationwide. These MFs can sub-franchise other locations. For example, if a client buys a package at a franchisee store, the order goes directly to CVC, and CVC pays a commission to the franchisee of up to 12%, depending on the type of product (highest for packages and lower for unbundled items, such as air tickets), while the MF receives a commission of up to 3%. If the sale is performed directly by the MF, CVC pays a commission of up to15%. The rationale behind paying a commission to the MF when a sale is performed by a franchisee is to compensate the MF for supporting this franchisee/region by supporting local expansion, offering training sessions, and developing regional products.

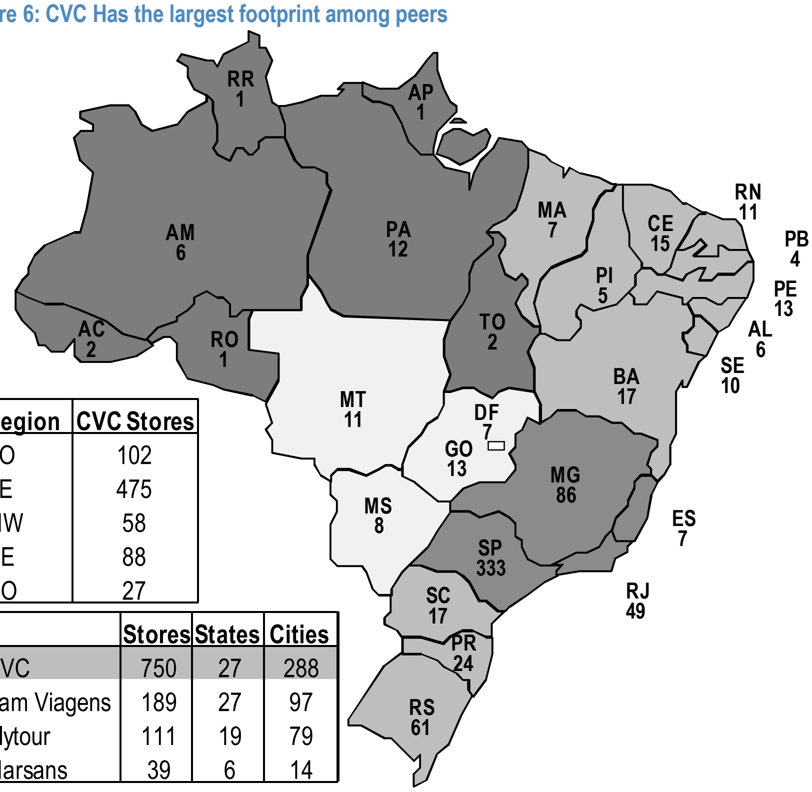
Low initial investment for new franchises allows faster and easier expansion. CVC's growth is based on the expansion of its exclusive store platform, particularly through franchisees. The company's franchise model differs from those of its peers in that CVC does not charge franchising fees. Consequently, new stores require lower initial investments. Additionally, working capital needs are low compared to apparel, footwear, and food franchises, as the stores do not carry inventories and are not responsible for managing the payments and receivables from the packages sold. We estimate that, depending on the location, the initial investment may be lower than R$100,000 for street stores, which compares to over R$400,000 for apparel and footwear retailers. Therefore, we see the model as less restrictive for small entrepreneurs in terms of investment needs, allowing some of the best performing salespeople from master franchisors to have a career plan and open their own store.

Figure 5: CVC's points of sale – Includes Exclusive Stores (B2C) + B2B2C Stores



Source: Company reports and J.P. Morgan estimates.

Figure 6: CVC Has the largest footprint among peers



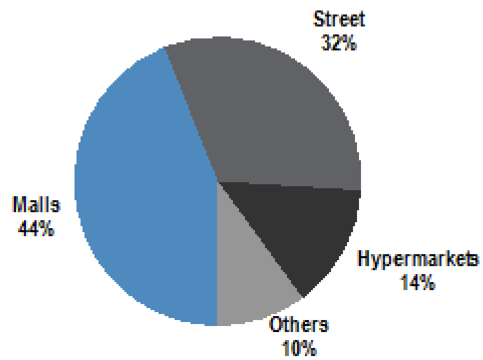
Region	CVC Stores
SO	102
SE	475
MW	58
NE	88
NO	27

	Stores	States	Cities
CVC	750	27	288
Tam Viagens	189	27	97
Flytour	111	19	79
Marsans	39	6	14

Source: Company reports and J.P. Morgan.

Diversified channel. CVC's main distribution channel is its network of 750 stores (75% of sales), of which 44% are located in malls. The second most important channel is the independent multi-brand travel agents, which account for 20% of sales. A considerable number of ex-employees have become master representatives for most of its franchised store base.

Figure 7: Stores Breakdown per Location



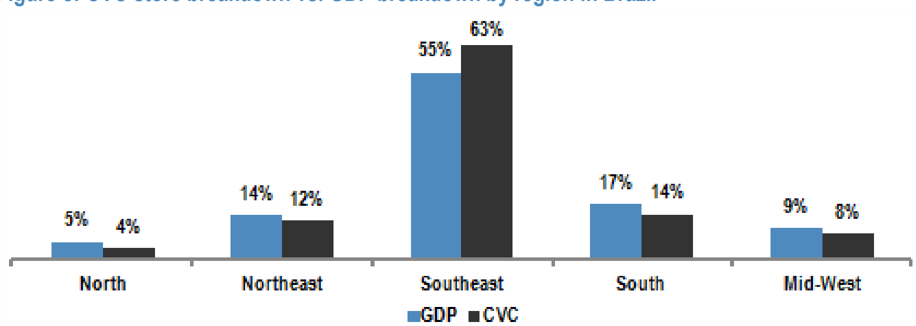
Source: Company reports.

Franchisees also receive commissions for online sales, although the e-commerce platform is directly operated by CVC, maintaining aligned interests. To avoid potential competition with its brick and mortar franchisee network, CVC grants a commission to the closest master franchise in the ZIP code from where the booking was placed. Such measures aim to minimize potential cannibalization impacts on the franchise network from e-commerce. In addition, in order to retain the exclusivity for the online commercialization of its products, CVC bought the right to exclusively explore the e-commerce platform from existing master franchisees as a part of the franchise negotiations that took place from the end of 2012 through the beginning of 2013.

Opportunity for Regional Expansion

CVC is present in all 26 states and the Federal District (Distrito Federal) as well as in 288 cities in Brazil. However, most of its stores are in the Southeast. The main reason for this concentration is due to the larger addressable market, and that CVC started to expand from this region. CVC acts as the master franchisor for the São Paulo metropolitan region, the largest and richest metropolitan area of the country. Moreover, the first master franchisors are former CVC employees, which tended to choose regions close to São Paulo owing to the larger addressable market and proximity. Nevertheless, we believe there are opportunities in other regions.

Figure 8: CVC store breakdown vs. GDP breakdown by region in Brazil



Source: Company websites.

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Franchise Model Benchmark

Mall stores typically offer the best returns and sales, but street formats are flexible. Forty-four percent of stores are located in malls, where productivity typically is higher compared to other store locations. We estimate mall stores generate about R$7.5 million in sales, while a street store generates about R$3.1 million.

Table 1: Estimated CVC Stores' P&L and Initial Investments

	All Vintages			Last Vintage		
	CVC	CVC - Mall	CVC- Street	CVC	CVC - Mall	CVC- Street
Avg. Store Size (sqm)	42	45	40	42	45	40
# of Employees	6	8	5	5	7	4
Years of contract	10	10	10	10	10	10
Advertising fee	-	-	-	-	-	-
Royalties	-	-	-	-	-	-
Total Investment (R$ '000)	98.1	113.7	83.7	98.1	113.7	83.7
Investments (R$ '000)	98.1	113.7	83.7	98.1	113.7	83.7
Franchise fee	-	-	-	-	-	-
Working Capital	-	-	-	-	-	-
Yearly Sales (R$ '000)	5,222.4	7,500.0	3,120.0	3,909.6	5,220.0	2,700.0
Monthly Information						
Sales (R$ '000)	**435.2**	**625.0**	**260.0**	**325.8**	**435.0**	**225.0**
Comission (% of Gross Bookings)	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Tax %	7.7%	9.0%	6.5%	7.5%	8.5%	6.5%
Net Revenue (R$ '000)	42.3	60.3	25.8	31.8	42.2	22.3
Expenses (R$ '000)	26.1	34.1	18.8	23.2	30.6	16.4
Depreciation (R$ '000)	1.6	1.9	1.4	1.6	1.9	1.4
Result (R$ '000)	14.6	24.3	5.6	7.0	9.7	4.5
% over net revenue	34.0%	40.0%	22.0%	21.7%	23.1%	20.4%
% over sales	3.0%	4.0%	2.0%	2.2%	2.2%	2.0%
Payback (months)	21	13	28	28	25	30

Source: J.P. Morgan estimates.

Typical required investment is the lowest among available franchise models. The required investment to open a CVC franchised store is approximately R$98,000 and varies according to store location. For street stores, according to the company, the initial capex is R$84,000, but it is higher (R$114,000) for malls (excluding key money). Based on the Brazilian Franchises Association and companies' websites, this capex compares with TAM's, which is about R$150,000 (includes R$30,000 franchise fee that is zero for CVC), while the average payback for both stores is between 20 and 36 months. Additionally, the average amount of initial investment compares favorably with Arezzo (R$825k), Boticario (R$400k), and Hering (R$300k). Also, most of the franchisees are likely in the low tax regime that is used in Brazil to foster small businesses ("simple tax regime"). There are some examples of companies such as Arezzo and Hering whose franchisees have the risk of surpassing the threshold and based on our recent analysis for Hering (link) would need to grow sales as much as 30-70% to fully offset the new tax range.

Table 2: Key Franchise Models

R$	CVC	TAM Viagens	Marsans	Flytour	Hering	Arezzo
Franchisee fee	0	30,000	10,000	50,000	45,000	25,000
Refurbishing/Equipments	98,100	120,000	50,000	100,000	390,000	650,000
WC	0	0	35,000	100,000	200,000	150,000
Payback	20 to 36 months	24 to 36 months	24 to 36 months	24 to 36 months	18 to 36 months	18 to 36 months
Commission	10.6%	12.2%	~15%	~15%	0.0%	0.0%
Royalties	0.0%	1.3% of Gross Sales	1% of Gross Sales	1% of Gross Sales	3% of Purchases	27.0%
Marketing	0.0%	0.5% of Gross Sales	0.3% of Gross Sales	0.3% of Gross Sales	1.5% of Purchases	3.0%

Source: Company data, ABF (Brazilian Franchises Association) and J.P. Morgan estimates.

According to our estimates, representatives typically have high returns, above 30%, fostering store expansion. The average nominal internal rate of return for the representatives varies from 23% to 31% (stores in malls versus street stores), and the payback for recently opened stores varies from 20 months for malls to 36 months for stores located outside supermarket and hypermarkets. Again, malls tend to be a better option in terms of payback. However, the challenge is that CVC is growing faster than the number of new malls opened.

Since 2011, CVC adopted a more analytical and financial approach to store openings in order to improve the returns of new stores. The main steps in determining the store expansion are: (1) estimate the addressable market by city, mapping demographics of more than 5,600 municipalities in Brazil; (2) calculate CVC's market share in each of these locations; (3) set the minimum sales per new store in order to achieve a maximum payback of 36 months, which yields a minimum IRR of about 30% (or ~40% ex-commissions); and (4) complete a bottom-up analysis for store positioning and definition of maximum store density per city.

Consistent Advertising Strategy to Support Brand

Brand recognition is one of CVC's strongest assets. We believe the CVC brand is very well positioned to target the emerging consumer, as its advertisements usually market low prices and affordable payment options. Additionally, such ads are published in newspapers and announced on TV almost on a daily basis. This marketing strategy has been implemented over several years, yielding strong brand recognition. According to *Folha* newspaper's "Top of Mind" ranking, CVC has been the most recognized brand in the tourism category for the past three rankings (2013, 2012 and 2011), followed by airlines Tam (#2) and Gol (#3).

Figure 9: Every day advertisement strategy to support brand

Source: Company.

Well established product sales platform, focused on maximizing sales of packages. CVC recently redesigned its store-front system to maximize the conversion rate, introducing a more user friendly tool with reduced average time for the completion of sales. In addition, it allows for easier internal advertisement of the best offers in terms of travel packages. Although CVC's sales platform allows for the sale of unbundled products, the main focus is on packages. However, to avoid potential sales losses, the system allows the salesperson to get an unbundled item if the customer insists, particularly an air ticket, to lower the package price and complete the sale. However, commissions are lower in such cases, and ticket sales are discouraged.

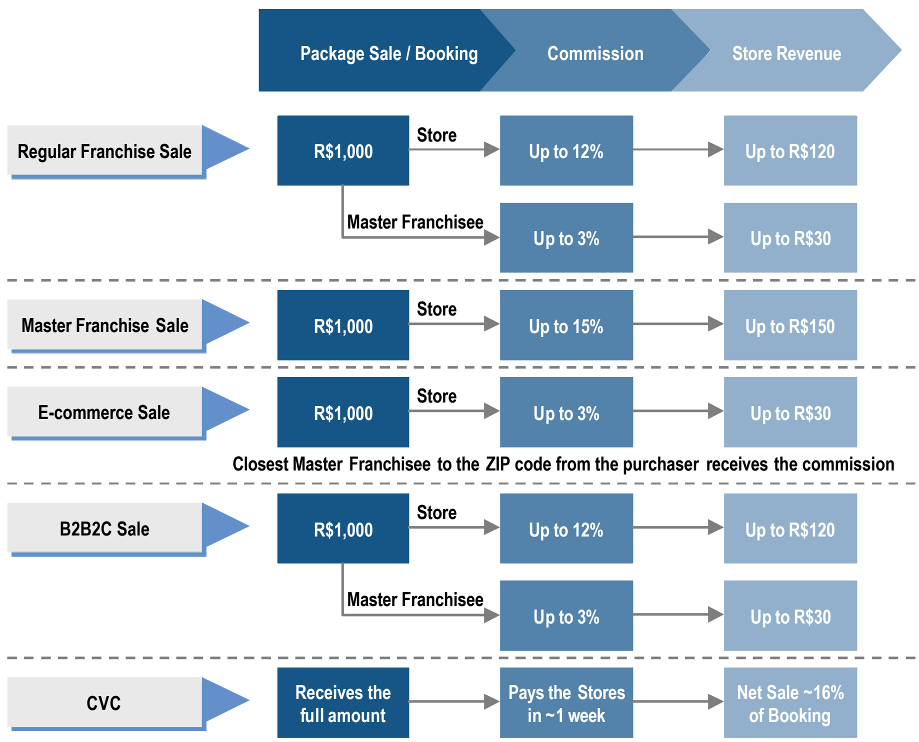
Back-end product development. In April 2013, CVC brought back Mr. Valter Patriani, a former CEO at CVC with 37 years of industry experience. His primary task is to develop regular and consistent travel packages within the company to maximize the number of product offerings. Creating attractive packages is one of CVC's key differentiators, as they help maintain healthy margins for the company as well as keep the sales channel active to foster travel ideas and sales.

Competitive but Still High-Margin Business

CVC generated a 52% Adj. EBITDA margin in 2012, compared to the single-digit margins that most online travel agents tend to have. Revenues are recognized at the time of boarding from an accounting perspective. However, as the client purchases the package at the store, the flow of funds and payables start. The revenue build-up and flow of funds are explained in the diagrams and tables below. We look at an example of a R$1,000 travel package sold at the four different channels: brick and mortar franchisee, master franchisor that operates a store, e-commerce platform, and B2B2C sales representative.

Figure 10: Flow of Funds at Time of Sale (Using R$1,000 package as example)

R$



Source: J.P. Morgan estimates. Note: based on 2012 data

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The denomination and timing of accounting follows particular nomenclature of the industry, as we explain in the table below.

Table 3: Brick and Mortar P&L

	Line Item	How is Derived?	When Accounted?	Depends upon?
A	Gross Bookings	store or agent sales times product mix	at time of sale, becomes supplier payable	Store format and productivity (vintage) or agent productivity
x	Conversion Rate	Based on Boarding	at time of boarding	passenger actually taking the trip
= B	Consumed bookings	Based on Boarding	Recognized as sales and receivable	passenger actually taking the trip
x	Gross margin	sales mix	at time of boarding	product mix and negotiations
= C	Gross Product Revenues	Bookings minus costs,		product mix and pricing
-	Deductions & taxes	Discounts and taxes	at time of sale, becomes payable	product mix and pricing
-	Commissions	3% for MF and 12% for franchisee		10-year contract
= D	Net revenues	Based on Passenger Boarding	Recognized as sales and receivable	passenger actually taking the trip
-	Cash expenses	Mostly ads / overhead expenses	as incurred	overhead
= E	EBITDA			
-	D&A	Depreciation and amortization of franchisee payment	IFRS	Life of assets and intangibles
-	Financial expenses	LBO, Earn-out and Discounted Receivables	IFRS	Cost of financing
-	Stock Options expenses	Plans	IFRS Future share dilution	Plan granting documents
-	Non-recurring expenses	Earn-out	Provisioned on monthly basis. Payment after IPO	Agreement with cofounder
= F	EBT			
-	Taxes	Marginal tax rate	Cash tax is lower than effective (goodwill)	
= G	Reported Earnings	Adjustments are discretionary and non-audited	IFRS	

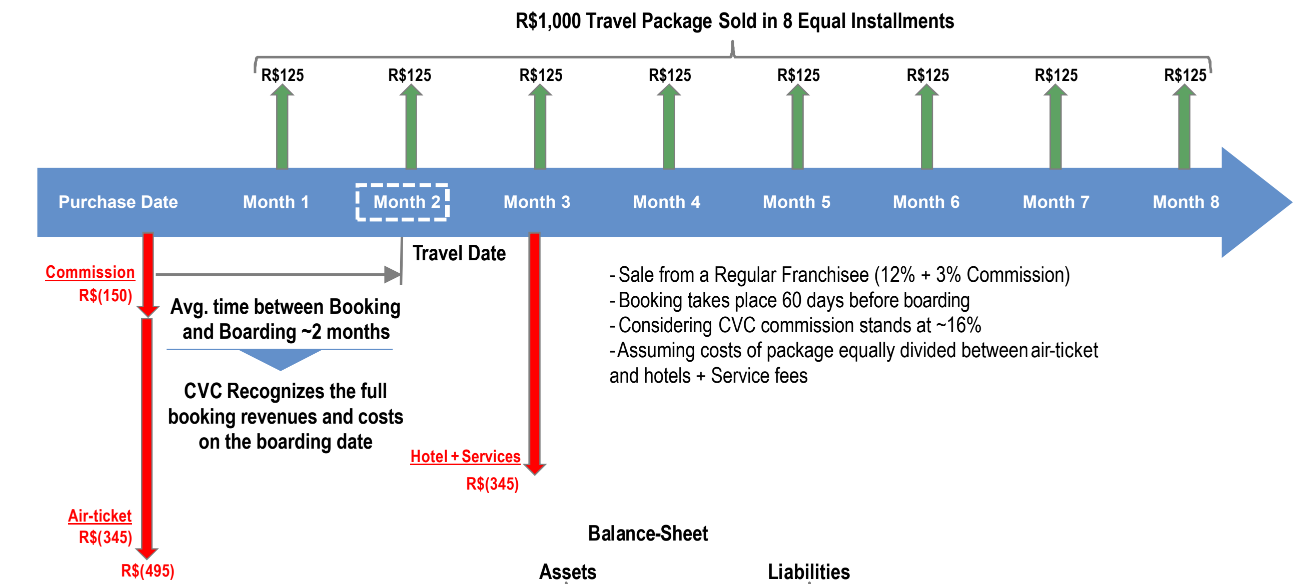
Source: Company reports and J.P. Morgan.

Working Capital and Flow of Funds

Revenue is recognized at the time of boarding, and payment to airlines (~50-60% of package) occurs at the time of sale (typically two months before boarding). The hotel and other services payments occur about a month after boarding, as depicted below:

Figure 11: Flow of revenues and expenses

R$



Summary Cash-flow

	Inflow	Outflow	Cash-flow
Purchase date	-	R$(495)	R$(495)
Month 1	R$125	-	R$(370)
Month 2	R$125	-	R$(245)
Month 3	R$125	R$(345)	R$(465)
Month 4	R$125	-	R$(340)
Month 5	R$125	-	R$(215)
Month 6	R$125	-	R$(90)
Month 7	R$125	-	R$35
Month 8	R$125	-	R$160

Balance-Sheet

	Assets			Liabilities	
	Receivables	Prepaid Expenses	Advance to Supplier	Advanced Sales	Suppliers Payable
Purchase date	R$1,000	R$150	R$345	R$1,000	-
Month 1	R$875	R$150	R$345	R$1,000	-
Month 2	R$750	-	-	-	R$345
Month 3	R$625	-	-	-	-
Month 4	R$500	-	-	-	-
Month 5	R$375	-	-	-	-
Month 6	R$250	-	-	-	-
Month 7	R$125	-	-	-	-
Month 8	-	-	-	-	-

Income Statement

	Booking	Consumed Booking	COGS + Fees + Tax	Net Sales
Purchase date	R$1,000	-	-	-
Month 1	-	-	-	-
Month 2	-	R$1,000	R$(840)	R$160
Month 3	-	-	-	-
Month 4	-	-	-	-
Month 5	-	-	-	-
Month 6	-	-	-	-
Month 7	-	-	-	-
Month 8	-	-	-	-

Source: J.P. Morgan estimates. Note: considering the package is paid with a credit card, which represent about 50% of the cases.

As seen above, the typical cash flow is negative in the first six months of the package, which derives net revenue of around 16% for CVC, or about R$160 of the consumed booking of R$1,000 in the example above. The mismatch in cash flow is solved with the securitization of receivables with banks, which typically charge 110% over basic interest rate (CDI), as we detail below.

Reduction in working capital cost. Since last February, CVC has been discounting a lower amount of receivables (from R$388 million in 3Q12 to R$200 million in 3Q13). The company typically pays 110% of the basic interbank lending rate (CDI) in such transactions. Meanwhile, the plan is to stop discounting receivables post the full payment of the LBO outstanding debt and earn-out. Also, CVC worked a structure to strip off the credit risk from its receivables based on bank slips and checks, which accounted for 34% of 2012 sales. As of February 2013, CVC now transfers the consumer credit risk to a bank that accepts that receivable by paying a flat percentage fee of the amount to the financial institution. However, CVC still receives the money in the same number of installments initially contracted, with the option to discount part of it and anticipate payments based on market rates.

CVC does not carry significant inventory, but boasts a track record in inventory management. According to management, inventory-related losses have represented less than 0.1% of net revenues in recent years. The main inventory risk the company takes is related to chartered flights, as CVC may not be able to fill the aircraft with passengers. However, such risk is mitigated by its large scale and by chartering flights only to best selling destinations during peak periods, using its 40-year track record to better determine the dates. In addition, CVC may book in advance hotel rooms and airline tickets (block charter) to assure availability for its packages, which, based on CVC's long-term relationships with suppliers, allows it to cancel such reservations without any chargers with a pre-determined cancellation notice. Thus, if CVC finds difficulty in selling such pre-booked products, it gradually cancels the pre-reservations to adjust inventory to their sales rhythm.

E-Commerce Still Underdeveloped and an Opportunity

Opportunity to grow its e-commerce channel. Another important growth driver is the online channel. Of CVC’s total sales, only 3% is generated online versus about 20% of total market sales in 2012. CVC intends to bridge this gap in market share with the introduction of a new e-commerce platform launched in May 2013. Currently, the site is widely accessed, but the conversion rate remains low, albeit gradually improving. Management estimates that 80% of its customers access the internet to research travel but end up buying at the store. We expect online sales to grow faster than retail. However, we make a cautious assumption that it should represent 7% of sales by 2015E. Internet sales should grow 23% in 2013E

Credit Card JV

CVC also has a JV with BradesCard (subsidiary Bradesco, covered by Latin American financials analyst Saul Martinez). This JV is focused on issuing co-branded cards to CVC’s client base. Management is assuming 20% penetration of the customer base by 2017. On transactions using the co-branded cards at CVC stores, the JV will not charge the merchant discount rate (MDR), which is the rate that the merchant has to pay to the acquirers. Currently, CVC pays around 2.2% in interchange fees. To incentivize client migration from bank invoices/slips, the co-branded card should have no annuity in the regular category. Finally, CVC will have the right to decide on payment terms up to 12 months, meaning the potential financial partner of the JV would not interfere in CVC’s customer financing decisions within this sales category, thereby giving CVC full flexibility. Management expects the funding cost savings from avoiding direct securitization of receivables and economies of fees to yield a positive R$20m pretax impact.

LBO and Earn-Out Structure

As of September 2013, CVC owed to its former controlling shareholder R$145.3 million, which will be paid in monthly payments through December 2014, and provisioned the payment of an additional amount of R$94.5 million as earn-out to be paid in January 2015.

In December 2009, the private equity fund Carlyle acquired from the co-founder of CVC, Mr. Guilherme de Jesus Paulus (GJP), control of CVC. The total purchase price was R$705 million, of which R$385 million was paid in cash and the remaining through seller financing, generating an indebtedness for CVC bearing interest of CDI + 2%. The payment was split into (1) R$160 million in 60 installments of R$2.7 million (last one in December 2014), (2) R$3 million per quarter until December 2014 and (3) R$100m to be paid in December 2014. As of September 2013, CVC owed R$155 million to GJP due to the leveraged buyout structure (LBO).

In addition, CVC has already provisioned on its balance sheet R$98 million to be paid to GJP as an earn-out in January 2015. When Carlyle acquired control of CVC, it established an earn-out agreement with GJP that granted a payment of R$75 million adjusted for the IGP-M inflation index by January 1, 2015, if the following targets were met by CVC: 1) (i) full earn-out value if the average EBITDA adjusted for the IGP-M inflation index between 2010 and 2014 was above R$250 million; (ii) proportional amount between R$50 and R$75 million if the average EBITDA adjusted for the IGP-M inflation index between 2010 and 2014 was between R$239 and R$250 million; or 2) a liquidity event, setting forth several EBITDA metrics until 2014 similar to condition 1. According to CVC’s projections, condition 1 has already been met, justifying the provisioning of 100% of the expected earn-out payment plus its adjustments.

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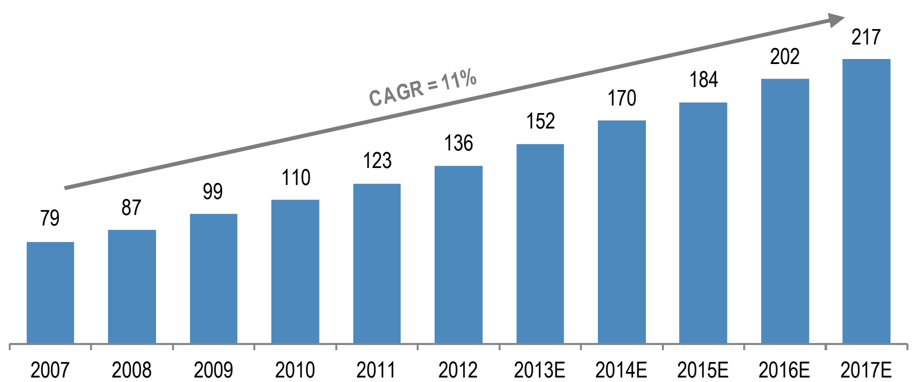
Brazilian Travel Industry Overview

Travel in Brazil is still an underpenetrated market. It is also a key discretionary item for the majority of consumers, some traveling on a plane for the first time, and is becoming part of consumers' expenditure as they fulfill their discretionary shopping list. In addition, traveling enjoys a high beta to disposable income. Thus, we believe travel penetration is poised to increase, and the World Travel & Tourism Council (WTTC) expects 11% annual growth over the next five years. We highlight the main drivers of this industry below:

Brazil travel and tourism industry growing at a CAGR of 11%, a pace that should be maintained over the upcoming years. Based on World Travel & Tourism Council data, travel and tourism spending in Brazil totaled R$136 billion in 2012, representing about 3% of the country's GDP, up from R$79 billion in 2007. According to WTTC's forecast, the market should maintain the solid average annual growth pace of 11% seen over the past five years, reaching R$217 billion by 2017E. The WTTC measures the market based on the activity of travelers on trips (leisure and business) outside their usual environment within the country with duration of less than one year.

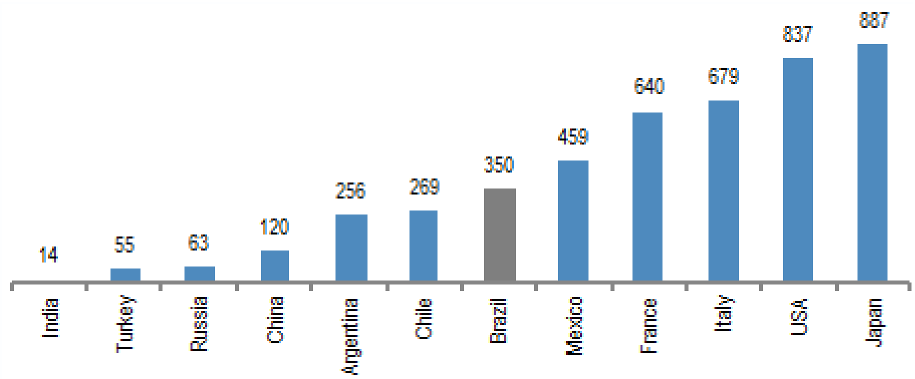
Figure 12: Brazil Travel & Tourism market
R$ in billions



Source: World Travel & Tourism Council (WTTC) and J.P. Morgan estimates. Note: includes business and leisure travel, excludes inbound traveler expenditures.

On a per capita basis, travel and tourism expenditure in Brazil is relatively low compared to that of developed markets. According to our estimates and WTTC data, Brazil presents average travel and tourism per capita expenditures nearly 25% lower than in Mexico, and about half of developed countries'. Therefore, we believe that as Brazilians' disposable income grows, this gap should gradually narrow over the upcoming years, particularly compared to Mexico.

Figure 13: Travel & Tourism per capita expenditure (2012)
US$



Source: World Travel & Tourism Council (WTTC) and J.P. Morgan estimates. Note: includes business and leisure travel Note: includes business and leisure travel, excludes inbound traveler expenditures.

Traveling is a top 3 item on consumers' discretionary shopping list. Based on consumer behavior research carried out by Cetelem-Ipsos, traveling ranks in the top 3 on discretionary shopping lists of consumers across all income classes. Thus, we believe this ranking should help supports industry growth over time.

Table 4: Spending choices by income class – Travel is a aspirational expense

	Classes D/E		Class C		Classes A/B
1	Furniture	1	Furniture	**1**	**Travel / Leisure**
2	Electronics	2	Electronics	2	Furniture
3	**Travel / Leisure**	**3**	**Travel / Leisure**	3	Electronics
4	Mobile Phone	4	Mobile Phone	4	Cars
5	TV/Video	5	Computers	5	Decor

Source: CETELEM – IPSOS.

Although becoming more attainable, travel is highly discretionary and dependent on disposable income growth. Travel expenditure increases are significantly dependent on income levels, showing very high elasticity to increases in disposable income. Thus, the income bracket is an important driver for the sector, as the percentage of income spent on travel increases significantly as the individual moves up the income segments (Figure 14). Despite deceleration in recent years, we observed significant income class upgrade during the past decade, with consistent real wage growth and unemployment at historical low levels, which altogether put traveling within reach of many families in Brazil, in our view.

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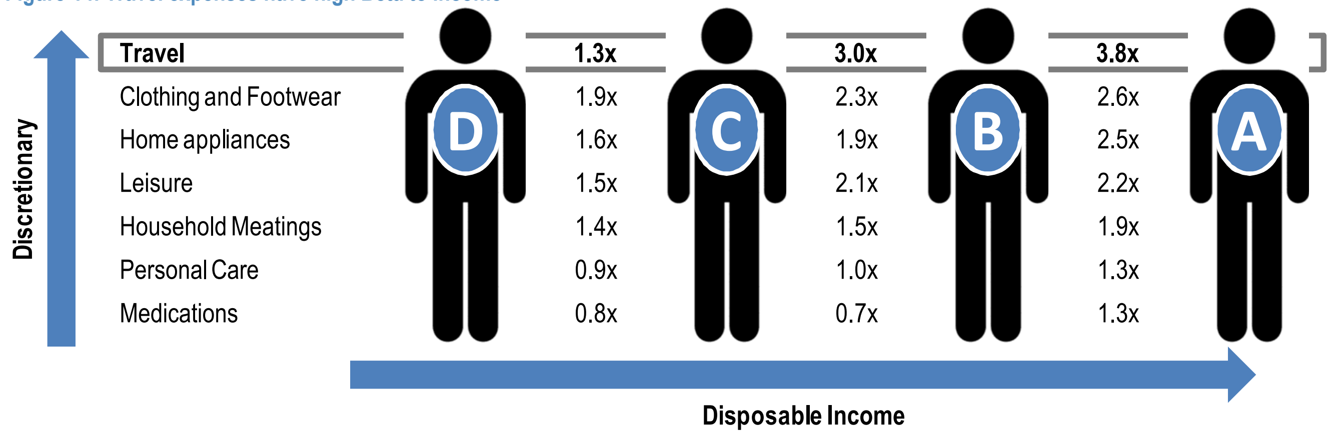
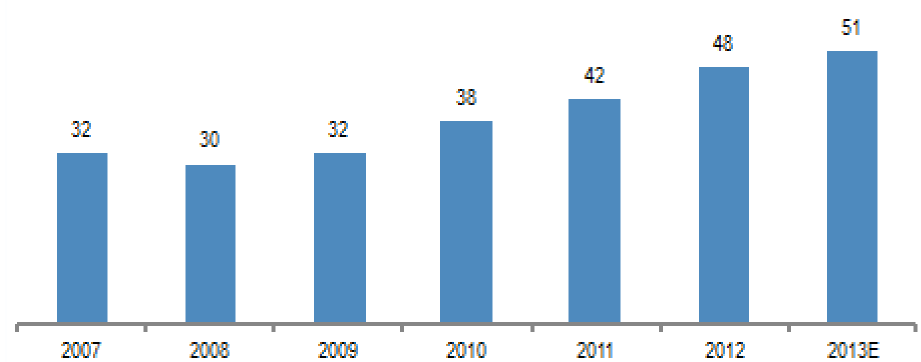
Figure 14: Travel expenses have high Beta to income



Source: IPCBR Maps 2013

Leisure travel spending represents about one-third of total travel expenditure, and stood at around R$48 billion in 2012. According to IPCBR consumer expenditure research, Brazilian consumers spent around R$48 billion in travel expenses in 2012. In addition, according to the estimated market size over the past years, the annual growth pace of the past five years stood at 8.4%. However, in 2013 it should print a slower growth pace (+6% y/y) due to slower disposable income growth, which stems from higher inflation, recent interest rate hikes, and more leveraged consumers.

Figure 15: Estimated Size of Brazilian Leisure Travel Market
R$ in billions

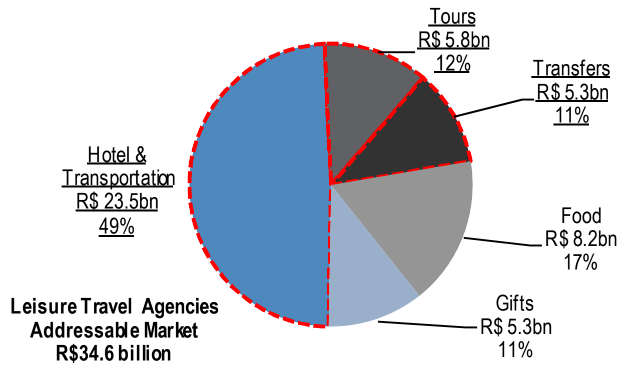


Source: IPCBR.

The addressable market in Brazil for leisure-focused travel agencies stood at around R$35 billion in 2012. Based on our estimates using IPCBR maps, consumer data and the profile of travel expenses from the Ministry of Tourism, leisure travel agencies' addressable markets stood at R$35 billion in 2012. To determine this market, we consider that the travel packages can include hotels and transportation, tours, and transfers, which, according to the Ministry of Tourism, represents around 72% of the total travel expenses.

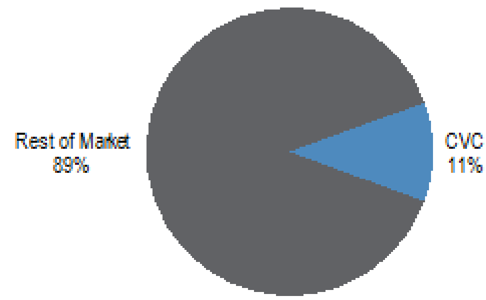
Based on our estimated target market, CVC has about 11% market share. In 2012, CVC consumed bookings totaled R$3.9 billion, which would yield the company approximately 11% market share of its target market. The lack of industry data and financial information from peers makes it hard to gauge the market share for its closest peers.

Figure 16: Brazil Leisure Travel Breakdown per Category



Source: IPCBR Maps 2012, Ministry of Tourism, and J.P. Morgan estimates.

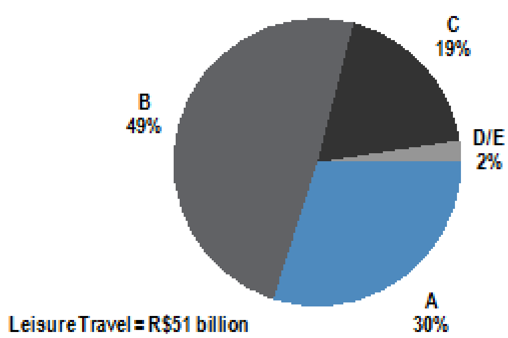
Figure 17: Brazil Leisure Travel Agency Market Share



Source: IPCBR Maps 2013, Ministry of Tourism, and J.P. Morgan estimates.

Leisure travel expenditure should stand at around R$51 billion in 2013. According to IPCBR consumer expenditure research from 2013, Brazilian consumers should spend around R$51 billion travelling, which represents about one-third of the travel and tourism market in the country, while the balance is represented by business travel. Moreover, the research unveils ~80% of the leisure travel expenditure is concentrated in the income classes A (~30%) and B (~50%), which altogether represent about 35% of the total households in the country.

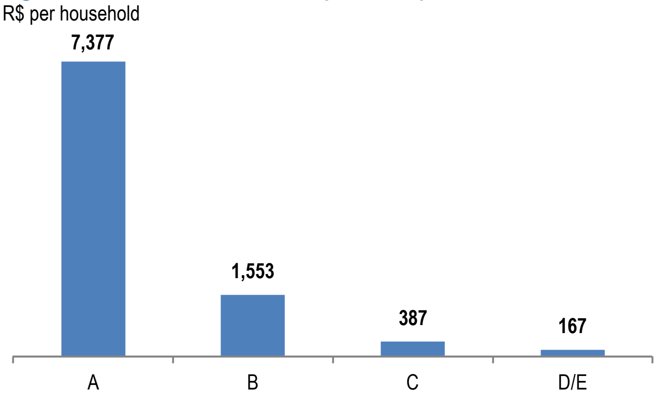
Figure 18: Brazil Leisure Travel Breakdown per Income Class



Source: IPCBR Maps 2013.

Figure 19: Brazil Leisure Travel Expenditure per Household

R$ per household



Source: IPCBR Maps 2013.

Global Travel Benchmark

Based on developed markets, we believe downside is limited to CVC

Over the past years, commissions in the US and Europe were gradually compressed, on the back of higher penetration of online travel agencies and pressures from larger hotel chains. However, travel penetration in such regions was already higher than in Brazil. Moreover, it is not a common practice outside Brazil to sell travel packages in installments, while the Brazilian hotel segment is much more fragmented. Furthermore, if margins start to get compressed in Brazil, CVC can also adjust its commercial policy with franchisees or develop more sales through its e-commerce platform, where it pays lower commissions to its brick and mortar stores. We provide below an overview of the US and European markets, and compare it to Brazil. Also, we include a sensitivity analysis at the end of the section in which we analyze CVC's valuation under a scenario of compressed Brazilian market commissions, and conclude that downside appears to be limited.

US and Europe Travel Industry

We learned from our North America Internet team led by Doug Anmuth that online travel agents (OTAs) often bundle air tickets, hotel rooms and car rentals to increase their consumer offering and help increase bookings and profitability, which is similar to Brazil. However, negotiations with hotels in the U.S. may be more challenging than those in Brazil as large chains represent a greater portion of available room nights in the U.S. (approx 70% vs. 16% in Brazil). Consumers are often familiar with a majority of branded hotel chains and what to expect. This is not the case in a typical Brazilian hotel or "bed and breakfast" ("pousada"). In Brazil, supply is not uniform and small hotel owners are not online. Online fraud, weak consumer protection laws, low standardization, and fragmented ownership of hotel rooms are the main reasons travel agents still can add value to final consumers.

Increasing focus on growing packages across all geographies

From the developed market perspective, which is similar to Brazil, OTAs and travel agencies have the highest margin selling packages instead of airline tickets or hotels only. That happens because the OTAs receive only a 2-3% take rate from the GDS airline structure in the U.S. Also, hotel chains and the OTAs have an agreement called "best price guarantee" where OTAs cannot offer stand-alone hotel rooms for a lower price than the hotel is offering directly. However, often customers are not fully aware of this and frequently believe OTAs are offering better prices. However, once the hotel is bundled in a package with an airline and or a car rental, the price of the hotel becomes "opaque", and therefore, OTAs can offer hotel rooms below the best rate guarantee rates. According to JPM Internet analyst Doug Anmuth, the margin estimate for packages hover around 20-25%, depending on the type of relationship with the hotel. However, he estimates packages represent only around 10%-15% of Expedia (covered by him) bookings, as the hotel industry is highly consolidated, and customers typically build their own packages as the hotel rooms of a specific chain follow the same standard. That is not the case in Brazil where 80% of the rooms are in the hands of smaller hotels with 20 or less rooms.

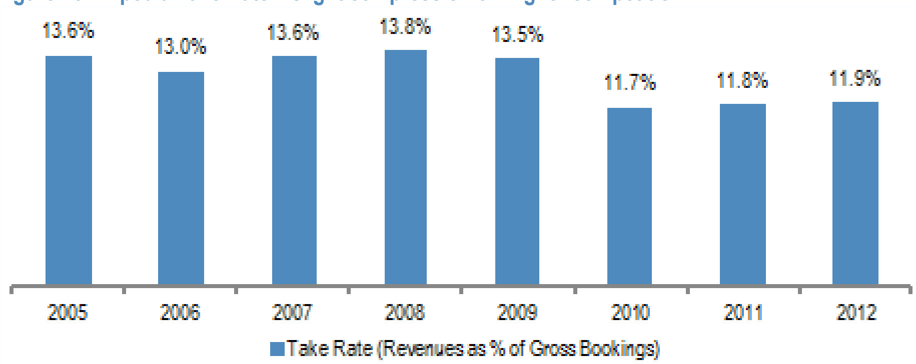
Working capital makes all the difference

OTAs can typically act under the agency or merchant model. In the agency model, OTAs do not do the billing or take the credit card. This is the model favored by Priceline (covered by Doug Anmuth), and they typically charge a lower fee to the hotel as compared to the merchant model. This has been one of the key drivers of growth for the Priceline in Europe. Under the merchant model (historically favored by Expedia), the OTA handles all the billing and typically charges a higher fee to the hotel to cover the billing processing costs. The advantage of the merchant model is the negative working capital, as the OTA receives the money from the customer before their stay in the hotel. And the OTA pays the hotel after the stay has occurred. According to our US internet team, about 45% of Expedia's free cash flow in 2014E comes from this positive impact of the negative working capital. However, the hotel receives a net rate lower than in the agency model. As a result, hotels typically prefer the agency model, especially in fragmented hotel markets such as in Europe, which is one of the reasons Priceline was able to grow so quickly there, according to our North America internet team. Priceline owns Booking.com which was originated in Europe and is growing at a fast pace in Brazil. In terms of margins for the hotel business, the take rate (= gross margin = net sales divided by bookings) has been coming down gradually as large hotel chains have greater leverage, especially in the U.S., and competition among OTAs continues to intensify.

Take rate (net sales over bookings) in the U.S. were compressed over time

Taking Expedia as a proxy to the take rate trends in the U.S. we learned that margins in this more developed market have been coming down over time. It seems the main reasons for this are the more intense competition among OTAs and the higher bargaining power of hotels, which are usually part of large chains. Yet over the past three years, it started to stabilize around 12%, according to trends noted in Figure 20. In addition, it is important to highlight that about 55% of Expedia's bookings are in the agency model, which typically has lower margins, and the company is a pure online player, which does not require it to pay commissions to brick and mortar stores.

Figure 20: Expedia Take Rate – slight compression on higher competition



Source: Company reports and J.P. Morgan estimates.

We already account for a gradual compression of CVC's take rate

Similarly to trends seen in the U.S., we believe travel operator margins in Brazil should be gradually compressed for three key reasons: 1) stepped up competition in the segment, particularly from online travel agencies; 2) increased penetration of traveling in Brazil, which may drive higher sales of unbundled products; 3) potential consolidation of the hotel segment plus higher presence of larger hotel chains in the country. Thus, we expect CVC's take rate to gradually go down to 13.2% by 20198E from almost 16% in 2012. However, unlike Expedia, more than 95% of CVC's sales is made through brick and mortar franchises under the merchant model, and the company pays up to 15% of the gross booking in commissions. Hence, if the market's take rate gets compressed, CVC can potentially mitigate such pressures by

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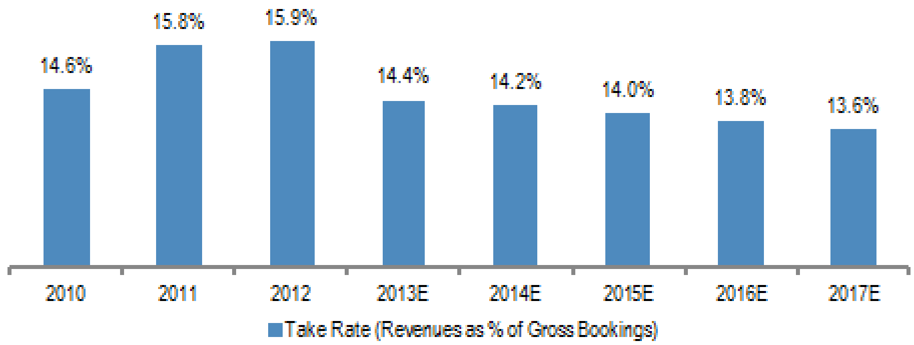
lowering the % paid to franchisees, or focusing more on its e-commerce platform, where packages have similar prices to brick and mortar stores, while it pays just 3% in commissions to master franchisors.

Figure 21: CVC Take Rate - Gradual compression going forward

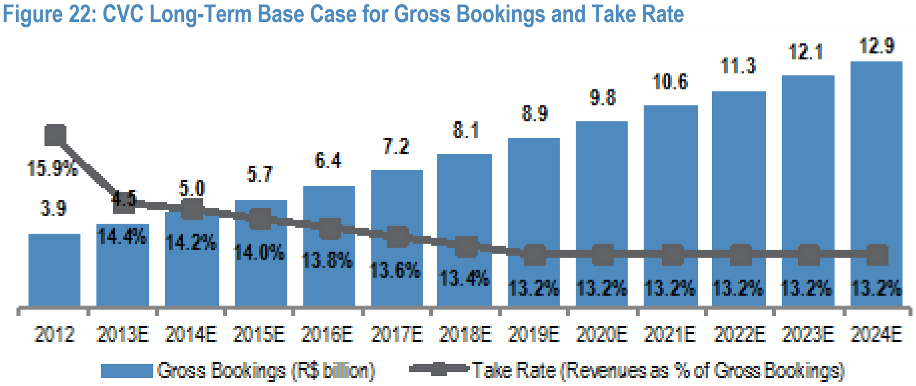


Source: Company reports and J.P. Morgan estimates.

Based on U.S. market trends we see limited downside to CVC's case

To gauge the impact on our valuation model concerning different scenarios for the take rate in the long term, we ran a stress test sensitivity analysis. In our analysis, we assume no changes in CVC's commercial structure in terms of commissions and mix between brick and mortar and online sales, which could potentially mitigate the take rate pressures on results. The takeaway from our analysis is that there's limited downside to CVC at this point. Our analysis shows that for every 25bps shift in our take rate curve, the company's price target moves by about R$1.5. Moreover, assuming that CVC's take rate gets to the level of Expedia's, there would be about 10% downside to the current share price. However, we find this scenario unlikely once CVC operates almost 100% under the merchant model, which typically has higher take rates, while about 55% of Expedia's bookings are under the agency model.

Figure 22: CVC Long-Term Base Case for Gross Bookings and Take Rate



Source: Company reports and J.P. Morgan estimates.

Table 5: Price Target Sensitivity to Shifts to Take Rate Curve Assumption

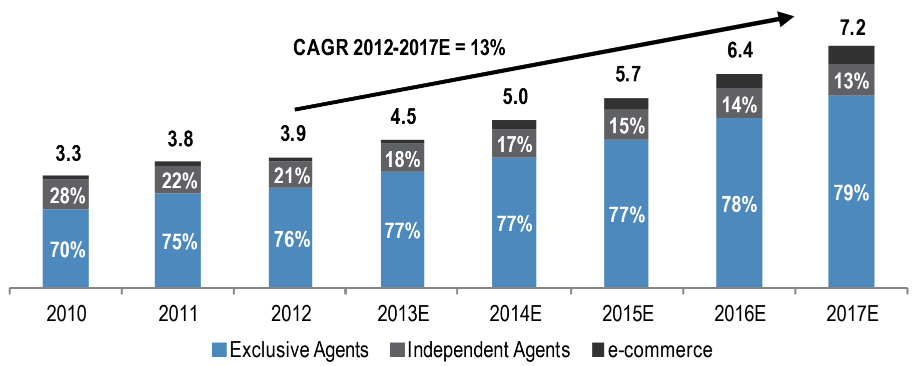
	+100bps	+75bps	+50bps	+25bps	Base Case	-25bps	-50bps	-75bps	-100bps
Long-Term Take Rate	14.2%	14.0%	13.7%	13.5%	13.2%	13.0%	12.7%	12.5%	12.2%
December '14 Target Price	26.0	24.0	23.0	21.0	20.0	19.0	17.0	16.0	14.0
Potential Upside / Downside	66.7%	53.8%	47.4%	34.6%	28.2%	21.8%	9.0%	2.6%	-10.3%

Source: J.P. Morgan estimates.

Earnings Outlook

CVC Brasil is accelerating growth in bookings post reorganization. The company spent the past two to three years mostly focused on internal issues, such as exclusivity agreements with franchises, plus systems, which should allow for higher conversion rates in stores and support the expansion of e-commerce platform. Thus, over the next five years we forecast gross bookings to grow at a CAGR of 13%. In addition, we expect such growth to be driven by CVC's exclusive platforms (CVC exclusive stores + e-commerce).

Figure 23: Bookings - 5y CAGR of 13% supported by exclusive sales platforms
R$ in billions

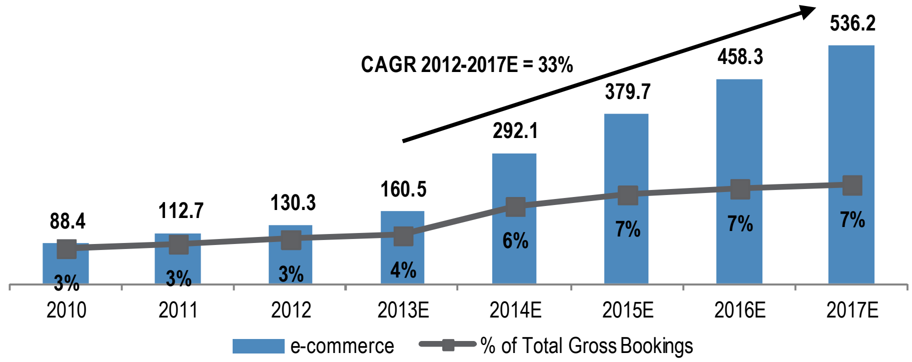


Source: Company reports and J.P. Morgan estimates.

E-commerce is a low hanging fruit with new portal. In line with the global trend of increased penetration of e-commerce in travel sales, we expect CVC to exploit a similar trend. We assume in our model a gross bookings 5y CAGR of 33% for the e-commerce platform, which should represent about 7% of the gross bookings by 2017E from 3% in 2012. In our view, the new platform introduced early in 2013 should be the main driver for such growth, once its user interface is improved, which should result in higher conversion rates, as most of the company's travel packages have competitive prices. However, CVC does not pro-actively advertise its e-commerce platform, which could unlock additional sales growth for the segment, but could cannibalize its brick and mortar stores to a certain extent and also does not create as strong a strong link to the consumer.

Unlike most peers, the bulk of CVC's e-commerce sales are travel packages. Thus, growing in this segment should not be a drag to margins. Approximately 90% of the bookings made at CVC's website are travel packages, which compares to about 10-15% at Expedia. This is particularly important in the case of CVC, as it finances its consumers, and generating around US$2-3 per air ticket sold would make the e-commerce platform unsustainable, which would ultimately become a large cash burner, in our view.

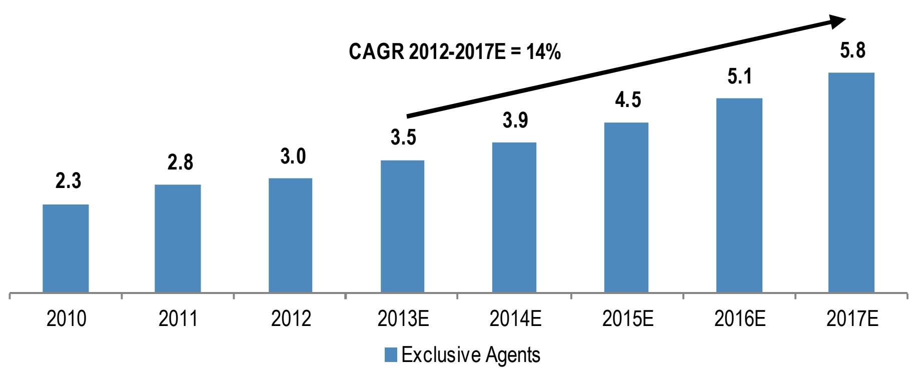
Figure 24: E-commerce Bookings - Recent investments in new platform to unlock growth
R$ in millions



Source: Company reports and J.P. Morgan estimates.

Exclusive brick and mortar stores should remain CVC's main growth driver, although it is not the fastest growing channel. We forecast a gross booking CAGR of 14% from 2012 to 2017E in this segment. In our view, there are still several regions in Brazil where travel penetration remains low and high speed is still not widespread. Thus, considering that travel packages are relatively highly ticketed items, costing about R$1,250, we believe the physical store gains relevance to attract new customers. The growth in brick and mortar stores also could foster e-commerce as the brand gets more popular in a region and brings local experience to CVC, which is able to develop products that are tailored to that clientele.

Figure 25: Exclusive Store Platform Bookings - Remains the Core Gear
R$ in billions



Source: Company reports and J.P. Morgan estimates.

Growth in the exclusive store network should drive growth in the brick and mortar segment. CVC plans to open about 100 new stores annually over the next four years as part of its expansion plan. The company has already identified 255 new locations to be opened from 3Q13 to 2015E; these are part of the exclusivity agreement contracts with its master franchisees.

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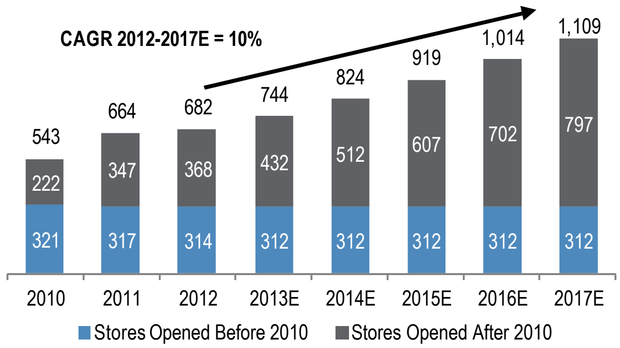
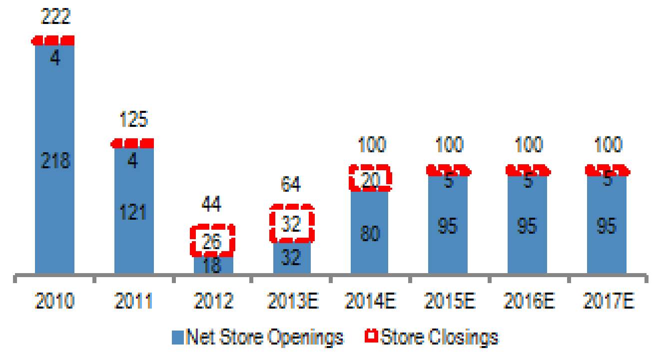
Figure 26: Bricks & Mortar Exclusive Store base



Source: Company reports and J.P. Morgan estimates.

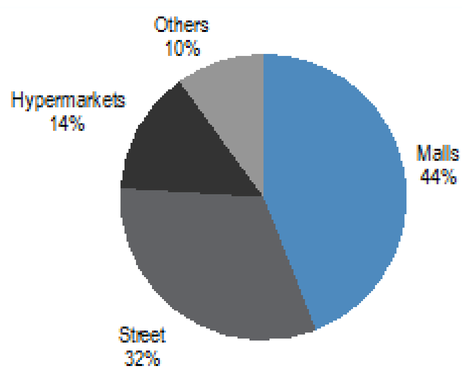
Figure 27: Store Openings



Source: Company reports and J.P. Morgan estimates.

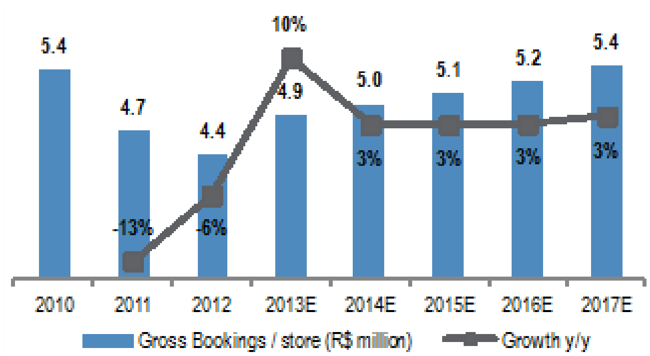
New stores are not as productive as the existing ones, but they should increase sales potential and support market share gains. CVC is already present in most of the best locations in the southeast region of the country, particularly malls and high traffic streets. As a result, we do not expect a significant improvement in store productivity as the new stores should be less productive given that they will be opened in neighborhoods or regions with lower travel consumption potential. The goal of the new openings is to expand CVC's geographic footprint to address a higher number of consumers and gradually consolidate the market.

Figure 28: Store Location Profile



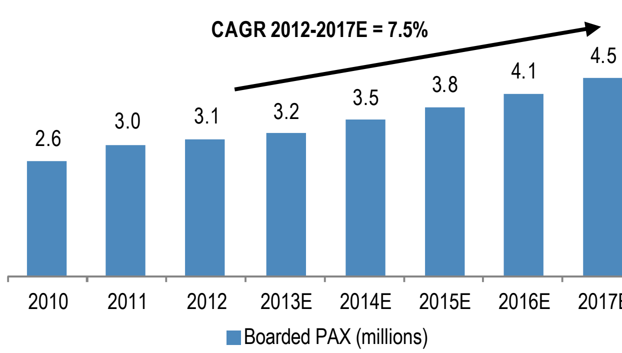
Source: Company reports and J.P. Morgan estimates.

Figure 29: Gross Bookings per Store



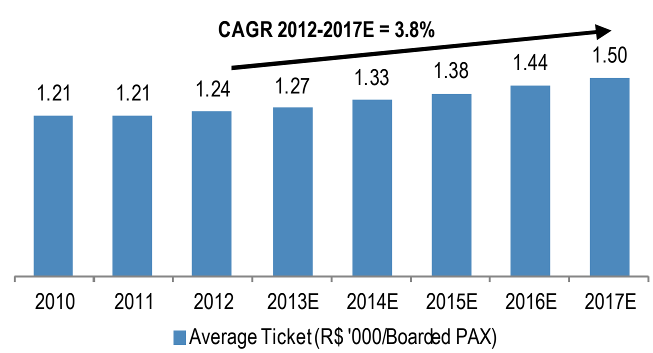
Source: Company reports and J.P. Morgan estimates.

Figure 30: Boarded PAX should drive growth



Source: Company reports and J.P. Morgan estimates.

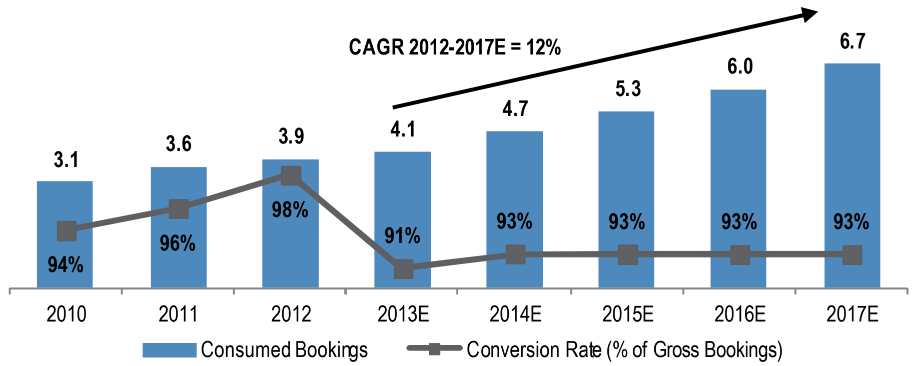
Figure 31: Average Ticket to Grow Below Inflation



Source: Company reports and J.P. Morgan estimates.

Consumed bookings should track bookings growth going forward. We do not foresee further changes in the conversion rate coming from CVC's breakage. Recently, the company said its customers started to purchase more packages with more advance to departure than historically, which reduced the conversion rate.

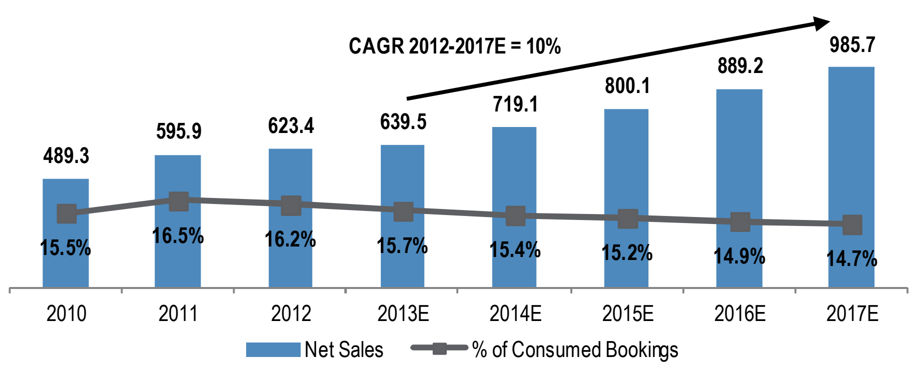
Figure 32: Consumed Bookings
R$ in billions



Source: Company reports and J.P. Morgan estimates.

Net sales (take rate) should grow at a slower pace than consumed bookings owing to increased competition from both local and international players. In our view, as online platforms emerge and gain relevance, commissions over package tend to be gradually compressed, following a similar trend seen in the U.S. over the past years. The main reason behind this assumption is that we believe online consumers are more sensitive to prices. As a result, we forecast that net sales as a % of consumed bookings (take rate) should decline from ~16% to ~14% over the next five years, driving a 5y CAGR of 10% vs. 12% for consumed bookings, a similar trend as happened in more mature markets, such as in the US (please refer to the Global Travel Benchmark section).

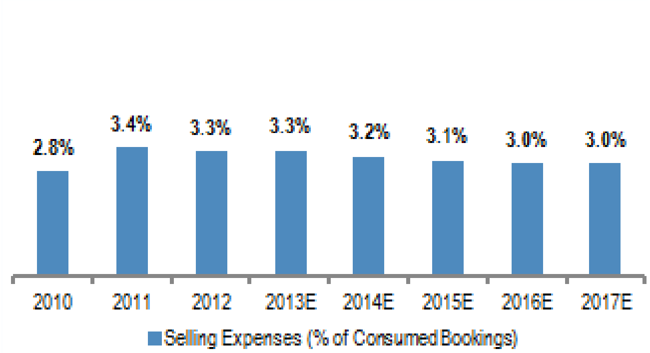
Figure 33: Net Sales - Product margins should be compressed
R$ in millions



Source: Company reports and J.P. Morgan estimates.

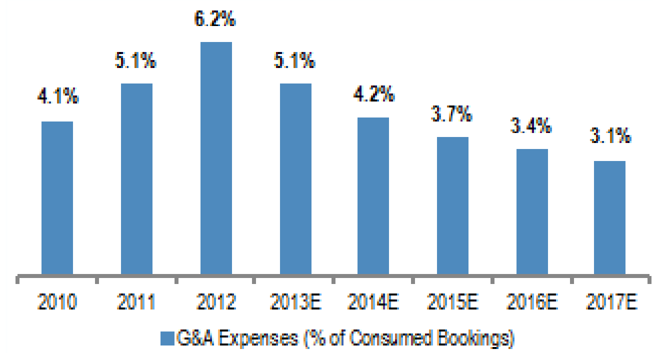
EBITDA should grow broadly in line with consumed bookings, even after forecasting margin compression on some products. We believe CVC should be able to more than offset the lower product margins forecast by leveraging its asset light business model, which should support the dilution of fixed expenses. As a result, we forecast adj. EBITDA to grow at a 5y CAGR of 12% from 2012 to 2017E.

Figure 34: Selling Expenses



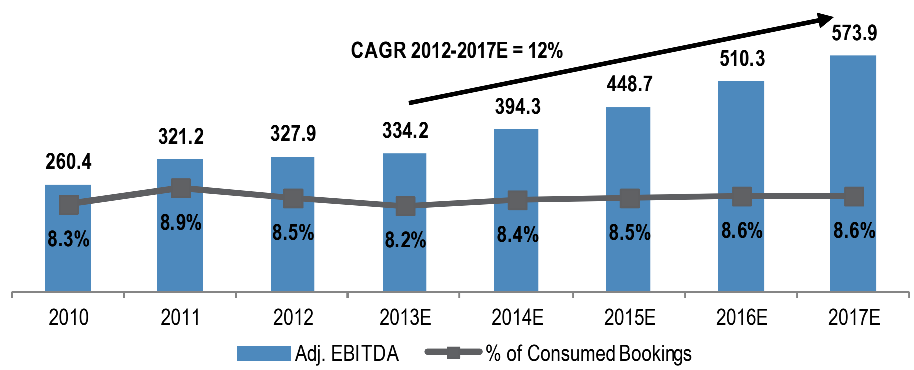
Source: Company reports and J.P. Morgan estimates.

Figure 35: G&A Expenses



Source: Company reports and J.P. Morgan estimates.

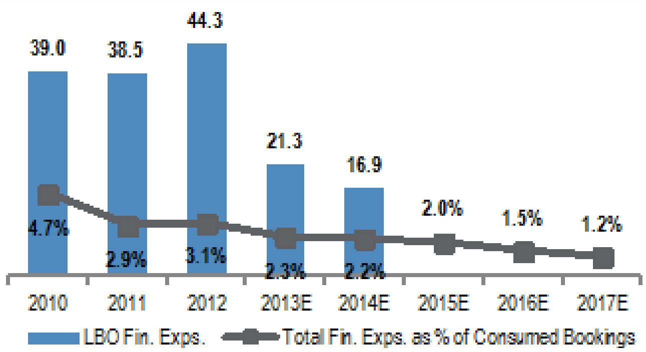
Figure 36: Adj. EBITDA - Flattish margins despite expected compression of product margins
R$ in millions



Source: Company reports and J.P. Morgan estimates.

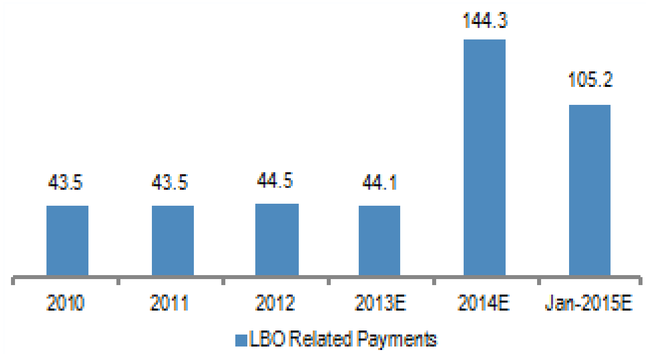
Leverage buyout (LBO) related expenses and payments should weigh on bottom line in 2014 and 2015, but cash flow will likely grow at a faster pace thereafter. Owing to the leverage buyout structure, CVC has significant amounts to be paid in 2014E and 2015E as part of Carlyle's deal with the former controlling shareholder. We estimate that the total cash disbursement in 2014E related to the payment of principal related to the LBO to amount to R$144 million, with R$100 million to be disbursed in 4Q14E. In addition, we forecast an extra R$17 million related to the interest accrual over the LBO debt and earn-out. Moreover, by Jan/02/2015 the company will pay an earn-out of R$75 million, which is being adjusted by the IGP-M inflation index since Dec/2009, and should result in a total cash disbursement of R$105 million. Consequently, CVC's cash flow has been under pressure, requiring the company to anticipate receivables, which weigh even more on financial expenses.

Figure 37: LBO Related Financial Expenses
R$ in millions



Source: Company reports and J.P. Morgan estimates.

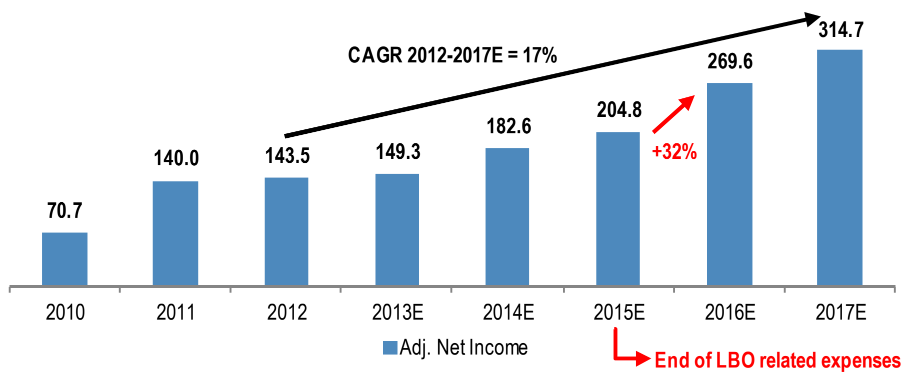
Figure 38: G&A Expenses
R$ in millions



Source: Company reports and J.P. Morgan estimates.

As CVC deleverages, we forecast earnings growth well ahead of gross bookings over the next five years. In our view, as expenses and cash payments related to the LBO wane, CVC's financial expenses should substantially decline, as it should also require less or even no anticipation of receivables. Thus, we expect earnings (excluding stock options and non-recurring expenses – we forecast no non-recurring expenses from 2015E onwards) to grow from 2012-2017E at a 17% CAGR, unlocking the potential for high dividend payments owing to its asset light model.

Figure 39: Adj. Net Income – Deleveraging to drive earnings growth
R$ in millions



Source: Company reports and J.P. Morgan estimates.

Valuation

Initiating coverage with a Dec'14 PT of R$20

We are initiating coverage of CVC Brasil (Ticker: CVCB3 BZ) with a December 2014 price target of R$20, which implies upside of 28% from current price levels. Our price target is derived from a 10-year DCF model, using a nominal cost of equity of 14.4% and perpetuity growth of 6%. At our price target, CVC would be trading at 17.5x P/E 14E and 14.4x P/E 15E, respectively, at a discount to international travel peers average (mainly US, as seen on the next page). We believe a discount is warranted due to the lack of long-term financials and a weak track record in the past two years. On our estimates, CVC currently trades at 13.6x 2014E and 11.2x 2015E P/E, at a discount to the average of international peers and local retailers with franchise models.

Table 6: CVC Brasil DCF model - December'14 PT of R$209

DCF Model (In nominal R$ million)	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	**401.6**	**461.6**	**520.2**	**565.5**	**600.9**	**649.9**	**693.3**	**733.7**	**770.5**	**803.7**
Tax Rate (%)	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
NOPLAT	**265.1**	**304.6**	**343.3**	**373.2**	**396.6**	**429.0**	**457.5**	**484.2**	**508.5**	**530.4**
(+) Depreciation & Amortization	35.5	42.8	51.7	62.4	75.2	90.4	108.5	126.4	147.0	171.8
Gross Cash-Flow	**300.6**	**347.5**	**395.0**	**435.7**	**471.7**	**519.4**	**566.0**	**610.7**	**655.5**	**702.2**
(-) Capex	(41.7)	(50.0)	(59.7)	(70.2)	(84.2)	(99.0)	(117.0)	(133.4)	(150.7)	(178.1)
(+/-) Changes in Working Capital	(193.7)	(191.3)	(121.1)	(71.9)	(73.3)	(71.4)	(67.4)	(64.7)	(64.3)	(65.8)
FCFF - Free Cash Flow to the Firm	**65.2**	**106.1**	**214.3**	**293.6**	**314.2**	**349.0**	**381.7**	**412.6**	**440.4**	**458.3**
(+/-) Interest Expense After Tax	(69.7)	(58.5)	(51.7)	(47.2)	(50.4)	(59.6)	(64.7)	(68.8)	(72.1)	(74.8)
(+/-) Changes in Debt	-	-	-	-	-	-	-	-	-	-
FCFE - Free Cash Flow to Equity	**(4.5)**	**47.6**	**162.6**	**246.4**	**263.9**	**289.5**	**316.9**	**343.8**	**368.3**	**383.5**
(-) Interest Income Adj. for Future CFs	(6.6)	(7.1)	(6.4)	(6.7)	(6.9)	(6.7)	(6.6)	(6.4)	(6.3)	(6.3)
Interest on Own Equity Tax Benefit	-	20.9	25.8	42.7	47.3	51.1	55.1	59.4	63.9	68.5
Adjusted FCFE	**(11.1)**	**61.3**	**182.0**	**282.4**	**304.3**	**333.8**	**365.5**	**396.7**	**425.8**	**445.7**
Perpetuity Growth / Value	**6.0%**									**5,647.3**
Discount Factor	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Present Value of Future Cash-Flows	**(10.4)**	**50.1**	**130.1**	**176.5**	**166.3**	**159.5**	**152.7**	**144.9**	**136.0**	**1,702.2**

Source: J.P. Morgan estimates. Note: for cash-flow purposes we assume that the earn-out payment due on Jan/02/2015 will be paid in 2014E.

Table 7: Price Target Derivation

In nominal R$ million

Price Target Derivation	
Equity Value	2,808.1
Present Value of Tax Benefits	57.5
Fully Diluted Number of Shares 2014YE (million)	143.6
Price Target (R$)	**20.00**
Current Price (R$)	15.60
Potential Share-price Upside	28.2%
Expected Dividends (R$)	-
Dividend Yield	0.0%
Total Return	**28.2%**

Source: J.P. Morgan estimates.

Table 8: Price Target Sensitivity: Cost of Equity vs. Perpetuity Growth

	12.9%	13.4%	13.9%	14.4%	14.9%	15.4%	15.9%
7.50%	29.0	27.0	24.0	23.0	21.0	19.0	18.0
7.00%	28.0	25.0	23.0	22.0	20.0	19.0	18.0
6.50%	26.0	24.0	22.0	21.0	19.0	18.0	17.0
6.00%	25.0	23.0	21.0	**20.0**	19.0	18.0	17.0
5.50%	24.0	22.0	21.0	19.0	18.0	17.0	16.0
5.00%	23.0	21.0	20.0	19.0	18.0	17.0	16.0
4.50%	22.0	21.0	19.0	18.0	17.0	16.0	15.0

Source: J.P. Morgan estimates.

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Valuation vs. Peers

In our view, there is no listed peer that could be directly comparable to CVC Brasil. For peer comparison, we divided the companies in four major subsets: (1) Foreign travel peers, which include brick and mortar travel agencies; (2) Online travel agencies (OTA); (3) Brazilian retailers that use the franchise model; and, (4) Brazilian travel peers, which include loyalty program companies (yet a substantial part of revenues and earnings in this segment stems from cash management). Although CVC's business model differs from its international peers, we believe the first subset is more representative, as it is the closest proxy we have for multiples in the sector. CVC operates an asset-light business model, as it does not own hotels and airplanes, like TUI and Thomas Cook, its main peers in Europe. In addition, different from the majority of potential peers globally, CVC finances its consumers, offering the option for payment in installments, which represent nearly 85% of total bookings. Also, CVC does not operate in corporate travel, which is also a more competitive market. For reference we also include online travel agencies' multiples. We also like to compare CVC with Brazilian retailers with franchise models given that they are pure Brazilian players focused on discretionary products, which benefit from the similar consumption drivers. Second, these peers also run asset-light businesses based on franchises, where store base expansion is a key growth driver. Yet, their products are not as discretionary as traveling for most emerging consumers.

Table 9: Comparables Valuation

Company	Price	Mkt Cap	P/E		EPS CAGR	EV/EBITDA		EBITDA CAGR	2014E		JPM
	LCY	(US$ mm)	14E	15E	14-16E	14E	15E	14-16E	ROE	ROIC	Analyst
CVC Brasil	**15.6**	**865.5**	**13.6x**	**11.2x**	**29%**	**6.1x**	**5.0x**	**13.8%**	**39.0%**	**29.7%**	**A.Teixeira**
Peers Travel											
Thomas Cook	5.3	3,845.7	20.1x	13.5x	n.a.	7.5x	6.3x	n.a.	28.9%	14.2%	J.Mestari
TUI Travel	5.1	4,173.5	15.3x	13.5x	11.8%	4.4x	4.1x	5.3%	20.9%	20.0%	J.Mestari
Kuoni Reisen	405.3	1,799.0	17.2x	14.3x	n.a.	6.6x	5.9x	n.a.	9.9%	11.4%	J.Mestari
Corporate Travel Mgmt	5.6	558.2	24.9x	18.5x	28.7%	17.5x	12.3x	30.0%	19.0%	25.3%	A.Soemino
Cox & Kings	146.0	324.0	8.2x	6.3x	n.a.	n.a.	n.a.	n.a.	17.4%	9.2%	S.Kumar
Hana Tour Service Inc	71,800.0	787.5	21.5x	19.1x	8.4%	n.m.	n.m.	7.7%	20.2%	25.6%	Not Covered
Beijing Capital Tourism	15.9	607.6	29.4x	28.3x	n.a.	n.a.	n.a.	n.a.	11.7%	10.1%	Not Covered
China CYTS Tours	17.3	1,188.2	19.9x	17.1x	n.a.	n.m.	n.m.	n.a.	11.1%	8.6%	Not Covered
Dufry Group	125.6	2,836.9	15.2x	12.5x	12.8%	7.1x	6.3x	10.7%	13.9%	8.6%	Not Covered
Median			**20.7x**	**17.8x**	**12.8%**	**12.3x**	**9.3x**	**10.7%**	**15.7%**	**9.7%**	
Peers Online Travel Agencies - U.S.											
TripAdvisor, Inc.	84.3	11,968.8	38.3x	30.5x	24.1%	23.8x	18.9x	28.0%	31.6%	26.4%	D.Anmuth
Expedia, Inc.	69.1	9,002.2	18.6x	16.4x	13.6%	7.9x	7.0x	13.4%	19.9%	11.4%	D.Anmuth
Priceline.com	1,153.5	59,322.5	22.7x	19.2x	19.7%	15.5x	12.8x	21.7%	32.8%	32.0%	D.Anmuth
Median			**22.7x**	**19.2x**	**19.7%**	**15.5x**	**12.8x**	**21.7%**	**31.6%**	**26.4%**	
Peers Online Travel Agencies - China											
Ctrip	39.0	5,046.0	20.7x	16.3x	27.0%	n.a.	n.a.	n.a.	23.7%	8.6%	A.Yao
Qunar	28.1	3,199.2	n.m.	8.9x	n.a.	n.m.	6.4x	n.a.	n.m.	n.a.	Not Covered
Elong	17.6	608.6	25.3x	3.5x	n.a.	n.a.	n.a.	n.a.	n.a.	-6.5%	Not Covered
Tempus	29.9	606.3	31.2x	23.9x	n.a.	n.a.	n.a.	n.a.	10.1%	6.7%	Not Covered
Median			**25.3x**	**12.6x**	**27.0%**	**n.a.**	**6.4x**	**n.a.**	**10.1%**	**6.7%**	
Peers Brazil Retail											
Hering	27.7	1,933.9	12.5x	10.9x	13.5%	3.5x	3.1x	13.9%	39.9%	46.8%	A.Teixeira
Arezzo	28.5	1,069.9	18.0x	15.1x	17.9%	4.7x	3.9x	19.7%	24.2%	27.9%	Not Covered
Median			**15.2x**	**13.0x**	**15.7%**	**4.1x**	**3.5x**	**16.8%**	**32.1%**	**37.4%**	
Peers Brazil Travel											
Multiplus	28.8	1,975.4	14.0x	11.5x	20.5%	1.4x	1.1x	22.6%	198.0%	141.9%	F.Abdalla
Smiles	35.9	1,857.6	23.4x	24.6x	6.6%	8.1x	6.9x	16.9%	22.5%	n.a.	F.Abdalla
Median			**18.7x**	**18.0x**	**13.6%**	**4.7x**	**4.0x**	**19.8%**	**110.3%**	**141.9%**	

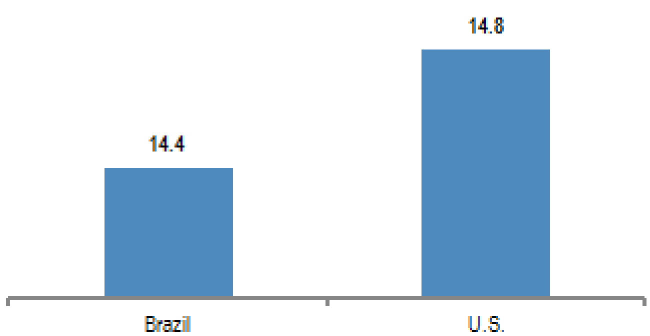
Source: J.P. Morgan estimates, Bloomberg. Prices as of January 14, 2014's close.

Fragmented Travel Agency Industry

Brazil's travel agency market is highly fragmented. According to the Ministry of Tourism, there were approximately 14,400 travel agencies in Brazil at the end of 2012, which compares to approximately 14,800 in the US. Moreover, Brazil's largest player, CVC, represented just about 5% of the number of agencies with its exclusive sales platform. Nevertheless, the Ministry of Tourism statistics can be conservative in its numbers, as it just considers the registered agencies, while the registration is not compulsory.

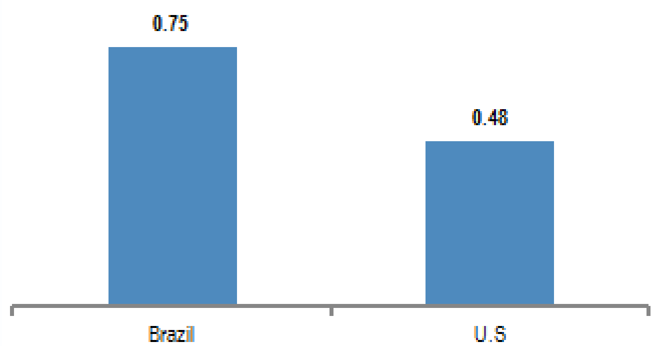
Potential room for industry consolidation. In terms of travel agency per inhabitant, Brazil far exceeds the U.S., which is experiencing a disintermediation process where the online platform and call centers are gaining market share. Therefore, over the past 18 years, the number of travel agencies in the U.S. declined from approximately 35,000 to 15,000. In our view, it is still too early to assume a disintermediation process in Brazil on the back of emerging consumers' behavior, which is driving industry growth and demand assisted sales for such products. However, we believe it is likely that the best structured travel agencies should become more representative in terms of store count and total sales.

Figure 40: Number of Travel Agencies ('000s)



Source: Ministry of Tourism, CNN and J.P. Morgan estimates.

Figure 41: Travel Agencies per 10,000 Inhabitants



Source: Ministry of Tourism, CNN and J.P. Morgan estimates.

Brazil's southeast region shows room for more travel agencies. The regional travel agency distribution compared to GDP shows over-penetration in the Northeast and South, with room for expansion in the Southeast, assuming consumption potential is tied to GDP.

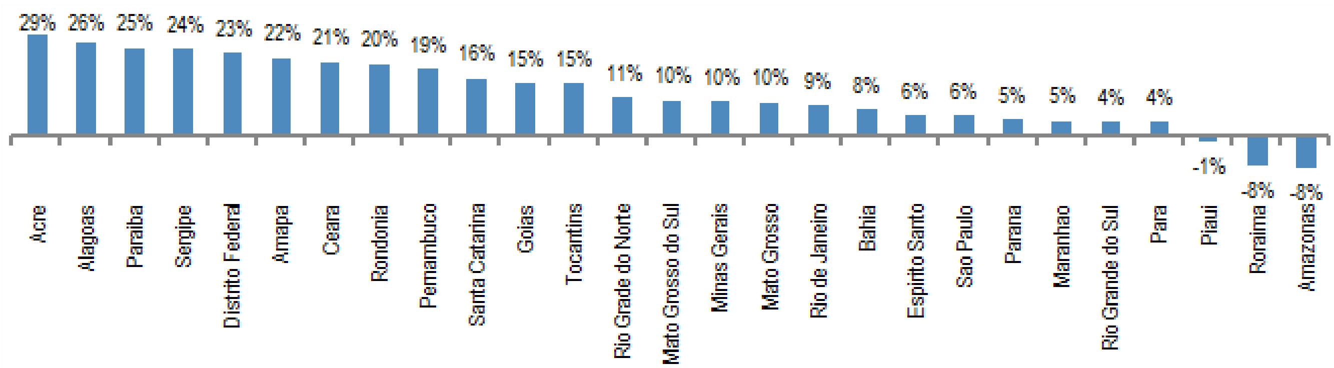
Figure 42: Distribution of Travel Agencies Throughout Brazil

Source: Ministry of Tourism data for 2012 and IBGE – last GDP per region available is 2010.

Travel agencies are expanding into the fastest growing regions of the country. According to the Ministry of Tourism data for 2012, the states that experienced the fastest expansion in terms of the number of travel agencies are located in the Northeast and Midwest regions of the country, which are the regions experiencing the fastest economic growth. Travel agencies grew 15% in the Midwest and Northeast in 2012 and 2011, compared to 7% growth in the North and 8% in the South and Southeast. On a national average, the number of travel agencies grew +9%Y/Y with over 1.2k net openings.

Figure 43: Northeast and Mid-West regions show highest growth in travel agencies - National average +9%Y/Y in 2012

2012 x 2011 growth in travel agencies by state

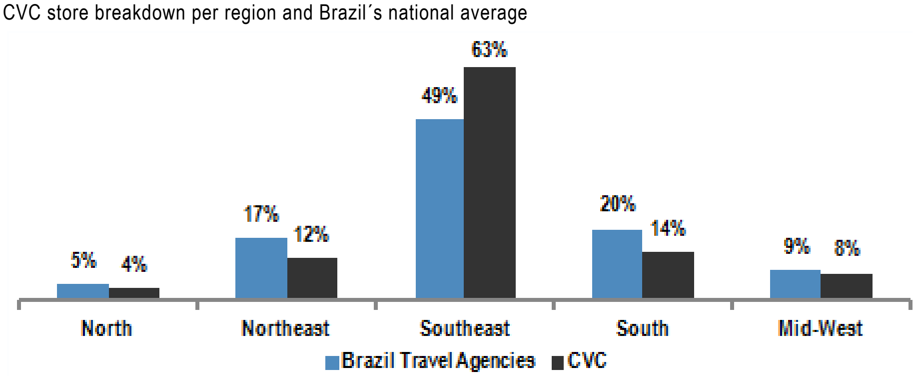


Source: Ministry of Tourism.

CVC is relatively concentrated in Brazil´s Southeast. As many as 471 CVC stores out of 750 total in 3Q13 are in the Southeast, or 63% of total. This compares to a 49% distribution for all national travel agencies, which discloses a potential leadership of CVC in the region. Moreover, we believe the lower penetration in other regions underscores potential for expanding outside the Southeast, either through market consolidation or organic growth.

Figure 44: CVC shows relatively larger concentration in the Southeast

CVC store breakdown per region and Brazil´s national average

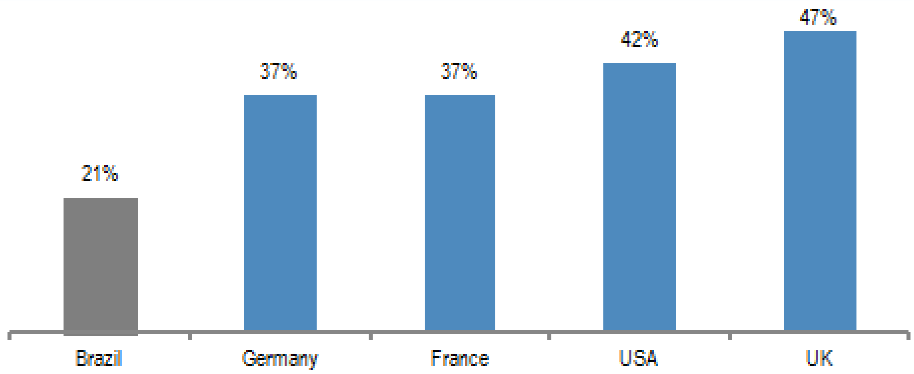


Source: Company data, Ministry of Tourism data for 2012 and IBGE – last GDP per region available is 2010.

Online travel agencies represent 21% of the total market in Brazil. Based on eMarketer and PhocusWright, the penetration of online travel agency platforms in total market sales stands at approximately 21%, which compares to about 42% in the U.S. In our view, the online platform should continue to gain additional ground in Brazil. However, we are skeptical that the share level seen in the U.S. will be reached in Brazil in the short/medium terms. The main rationale behind our belief is that the

Brazilian emerging consumer still requires assistance for the sale of travel products. Therefore, we believe players with hybrid platforms should be well positioned to fully enjoy sectors' growth.

Figure 45: Online Travel Sales Penetration



Source: eMarketer and PhocusWright.

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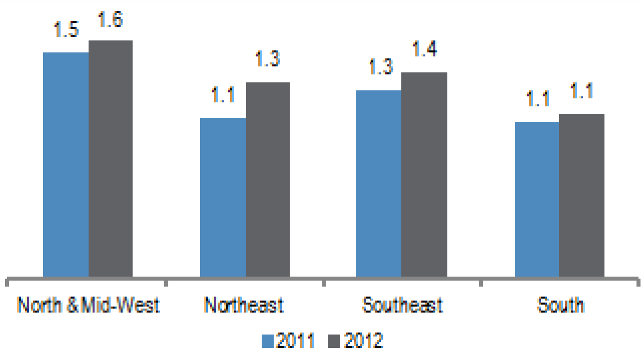
Travel Packages Market in Brazil

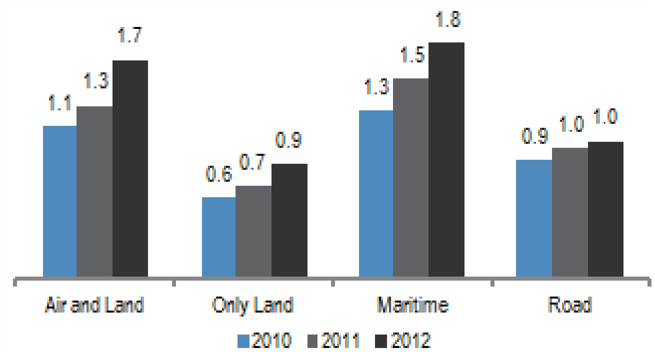
Statistics concerning leisure travel are limited in Brazil, making it difficult to get an accurate estimate for the number of passengers. The Brazilian Tour Operators Association (BRAZTOA) compiles market information for this segment, but consolidates the information from just 99 companies, which all together generated R$10 billion in booking in 2012, less than one-third of our estimated leisure travel market. Moreover, the historical data is not restated when new members become part of the association, which also brings noise to product mix.

Figure 46: Domestic: Average Ticket per Destination Region
R$'000s



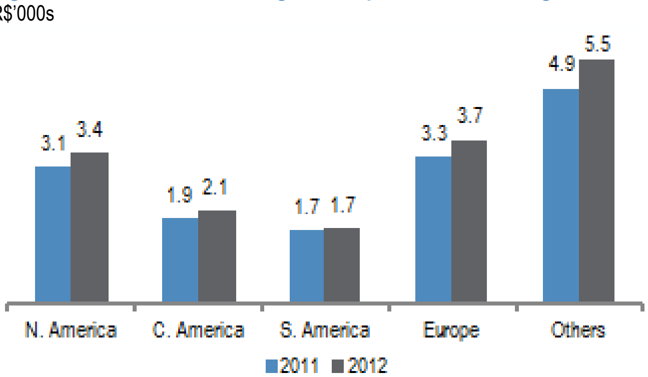
Source: Brazilian Tour Operators Association (BRAZTOA)

Figure 47: Domestic Packages Average Ticket
R$'000s



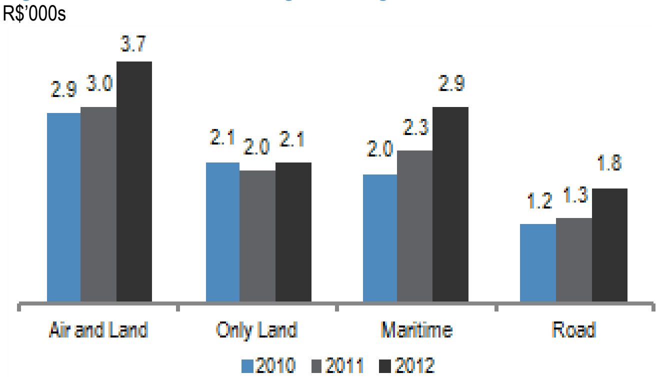
Source: Brazilian Tour Operators Association (BRAZTOA)

Figure 48: International: Average Ticket per Destination Region
R$'000s



Source: Brazilian Tour Operators Association (BRAZTOA)

Figure 49: International Packages Average Ticket
R$'000s

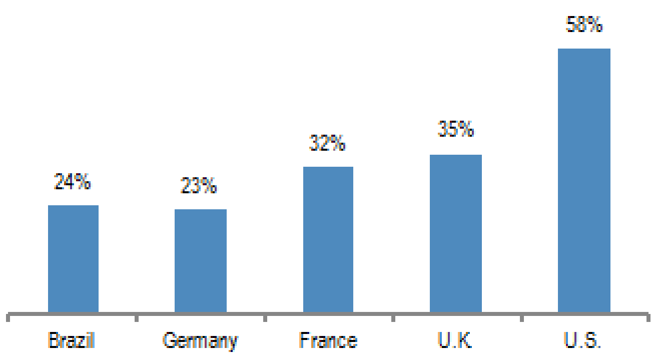


Source: Brazilian Tour Operators Association (BRAZTOA)

Suppliers Industry

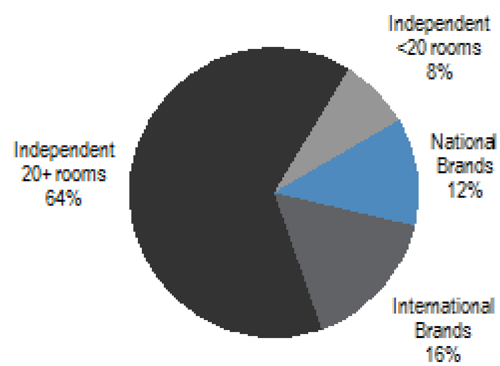
Hotels industry is fragmented. Unlike many other countries, the Brazilian hotel industry is fragmented. In 2013, 76% of total available rooms were offered by independent hotels and the remainder by national and international chains. Also, market share of the top six hotel operators was 24%, compared to 35% in the UK and 58% in the US (according to Euromonitor and LaSalle). Still, CVC's scale allows it to offer better prices to its customers, as the company frequently books a large number of rooms when negotiating with hotels. In 2012, CVC represented 56% of total room occupancy of its top-10 supplier hotels. The partnership with CVC is, therefore, important for hotels and allows CVC to have more bargaining power. The average Brazilian hotel occupancy rate was 66% through 2012 (according to LaSalle).

Figure 50: Market Share of Top 6 Largest Hotel Operators



Source: Euromonitor, LaSalle.

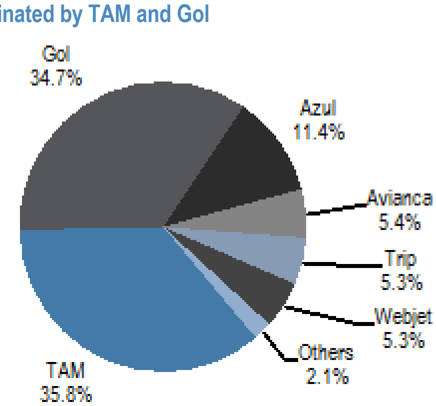
Figure 51: Independent Players Dominate Brazil's Hotel Market



Source: LaSalle – June 2013 Data

Unlike the hotel industry, the airlines sector is very concentrated in Brazil. The two biggest airline operators (TAM and GOL) represent 76% of the total domestic market, according to Infraero (as of 2012). Although this limits travel operators' bargaining power, CVC's scale and relevance in low occupancy rate flights are factors that can mitigate airline companies' aggressiveness when negotiating prices. In addition, despite recent hikes in airfare yields (Figure 52) after declining for the past few years (Figure 51), CVC managed to maintain its average ticket relatively stable over the past year (Figure 29 page 29).

Figure 52: Airline market is dominated by TAM and Gol



Source: Infraero – 2012 Data. *Webjet was acquired by Gol.

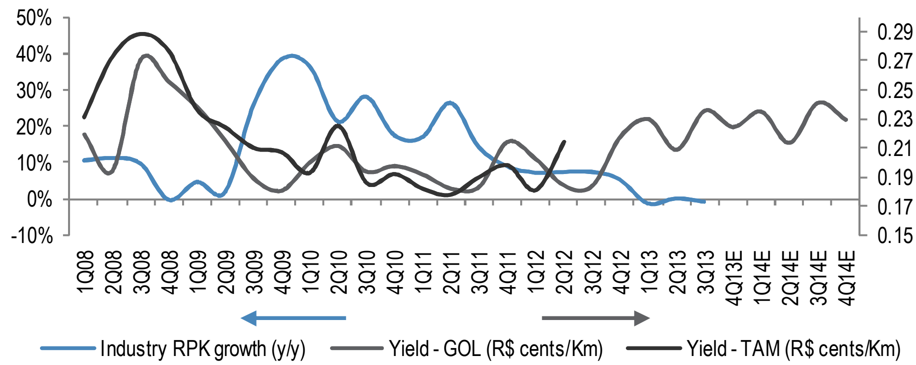
Figure 53: Airfare prices have declined over the past years despite market duopoly

R$/Km

Source: ANAC.

Figure 54: Airfare prices started to increase by the end of 2012

R$/Km

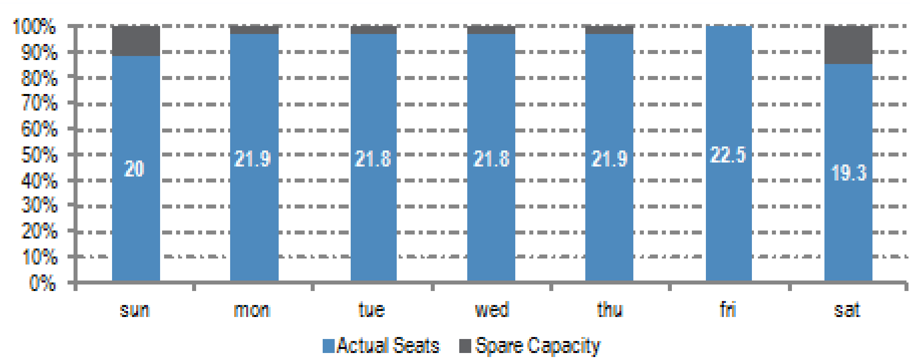


Source: Company reports and ANAC. Note: Estimates provided by Fernando Abdalla - senior analyst for Latin America Transportation

Airport capacity utilization peaks during the week, travel packages use tickets outside of peak hours. Although the country suffers from poor infrastructure, travel packages are designed to make use of tickets outside of peak hours, which are cheaper, as they do not directly overlap with business travel. As a result, the majority of travel boarding takes place over the weekend, as business travel activity is lower and tickets are usually cheaper.

Figure 55: Capacity utilization peaks during the week

Million passengers



Source: Infraero 2010 data.

Appendix I: Financial Estimates

Table 10: Income Statement

R$ in millions

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Gross Bookings	**3,340.0**	**3,771.0**	**3,920.6**	**4,451.0**	**5,049.3**	**5,706.2**	**6,434.8**	**7,240.0**
Growth y/y	27.3%	12.9%	4.0%	13.5%	13.4%	13.0%	12.8%	12.5%
Consumed Bookings	**3,149.4**	**3,617.5**	**3,858.7**	**4,069.8**	**4,673.3**	**5,279.2**	**5,952.7**	**6,697.6**
Growth y/y	n.m.	14.9%	6.7%	5.5%	14.8%	13.0%	12.8%	12.5%
% of Gross Bookings	94.3%	95.9%	98.4%	91.4%	92.6%	92.5%	92.5%	92.5%
Net Revenues	**489.3**	**595.9**	**623.4**	**639.5**	**719.1**	**800.1**	**889.2**	**985.7**
Growth y/y	n.m.	21.8%	4.6%	2.6%	12.5%	11.3%	11.1%	10.8%
% of Consumed Bookings	15.5%	16.5%	16.2%	15.7%	15.4%	15.2%	14.9%	14.7%
Adj. EBITDA	**260.4**	**321.2**	**327.9**	**334.2**	**394.3**	**448.7**	**510.3**	**573.9**
Growth y/y	n.m.	23.3%	2.1%	1.9%	18.0%	13.8%	13.7%	12.5%
EBITDA margin	53.2%	53.9%	52.6%	52.3%	54.8%	56.1%	57.4%	58.2%
% of Consumed Bookings	8.3%	8.9%	8.5%	8.2%	8.4%	8.5%	8.6%	8.6%
EBIT	**263.5**	**277.5**	**160.8**	**262.8**	**338.7**	**401.6**	**461.6**	**520.2**
Growth y/y	n.m.	5.3%	-42.1%	63.5%	28.8%	18.6%	14.9%	12.7%
EBIT margin	53.9%	46.6%	25.8%	41.1%	47.1%	50.2%	51.9%	52.8%
% of Consumed Bookings	8.4%	7.7%	4.2%	6.5%	7.2%	7.6%	7.8%	7.8%
Net Income	**74.9**	**109.8**	**20.2**	**113.7**	**160.9**	**199.0**	**269.0**	**318.0**
Growth y/y	n.m.	46.6%	-81.6%	n.m.	41.4%	23.7%	35.2%	18.2%
Net margin	15.3%	18.4%	3.2%	17.8%	22.4%	24.9%	30.2%	32.3%
% of Consumed Bookings	2.4%	3.0%	0.5%	2.8%	3.4%	3.8%	4.5%	4.7%
Adj. Net Income (ex-goodwill)	**70.7**	**140.0**	**143.5**	**149.3**	**182.6**	**204.8**	**269.6**	**314.7**
Growth y/y	n.m.	98.0%	2.5%	4.0%	22.3%	12.1%	31.6%	16.7%
Net margin	14.5%	23.5%	23.0%	23.4%	25.4%	25.6%	30.3%	31.9%
Adj. Net Income	**97.2**	**166.5**	**170.0**	**197.0**	**230.3**	**252.5**	**285.5**	**314.7**
Growth y/y	n.m.	71.3%	2.1%	15.9%	16.9%	9.6%	13.1%	10.2%
Net margin	19.9%	27.9%	27.3%	30.8%	32.0%	31.6%	32.1%	31.9%
Fully Diluted EPS (R$)	**0.58**	**0.85**	**0.16**	**0.80**	**1.12**	**1.39**	**1.87**	**2.21**
Growth y/y	n.m.	46.6%	-81.6%	n.m.	39.7%	23.7%	35.2%	18.2%
Fully Diluted Adj. EPS (ex-goodwill) (R$)	**0.55**	**1.08**	**1.11**	**1.05**	**1.27**	**1.43**	**1.88**	**2.19**
Growth y/y	n.m.	98.0%	2.5%	-4.9%	20.8%	12.1%	31.6%	16.7%
Fully Diluted Adj. EPS (R$)	**0.75**	**1.28**	**1.31**	**1.39**	**1.60**	**1.76**	**1.99**	**2.19**
Growth y/y	n.m.	71.3%	2.1%	5.9%	15.5%	9.6%	13.1%	10.2%

Source: Company reports and J.P. Morgan estimates.

Table 11: Balance sheet statement

R$ million

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Cash & Cash Equivalents	392.9	276.5	287.0	83.0	99.4	147.2	173.2	287.6
Accounts Receivable	573.0	755.5	788.4	1,164.6	1,243.0	1,585.2	1,939.6	2,240.1
Advances to suppliers	173.7	194.8	181.8	184.7	217.6	247.2	280.0	316.1
Prepaid expenses	96.6	103.7	102.4	108.6	128.0	145.4	164.7	186.0
Other Current Assets	5.0	9.1	14.3	12.9	14.8	16.8	18.9	21.3
Current Assets	**1,241.1**	**1,339.6**	**1,373.9**	**1,553.8**	**1,702.8**	**2,141.7**	**2,576.4**	**3,051.1**
PP&E	5.3	15.6	15.5	12.1	12.0	12.4	13.3	14.6
Intangible	222.4	209.9	326.1	304.5	259.2	217.3	207.7	214.4
Other Long-Term Assets	1.7	3.5	4.5	6.5	7.4	8.4	9.5	10.7
Long-Term Assets	**229.4**	**229.0**	**346.1**	**323.0**	**278.6**	**238.1**	**230.5**	**239.6**
TOTAL ASSETS	**1,470.5**	**1,568.6**	**1,720.0**	**1,876.9**	**1,981.4**	**2,379.8**	**2,806.9**	**3,290.7**
Accounts Payable	277.4	262.0	270.5	271.6	320.0	363.5	411.7	464.9
Advance travel package sales	799.0	778.2	797.2	904.8	1,035.8	1,174.2	1,326.2	1,493.4
Other Current Liabilities	51.4	119.0	95.8	101.3	116.4	132.0	149.1	167.9
Short-Term Debt	45.4	45.7	96.4	254.3	1.5	1.5	1.5	1.5
Current Liabilities	**1,173.1**	**1,204.9**	**1,259.9**	**1,531.9**	**1,473.7**	**1,671.2**	**1,888.5**	**2,127.7**
Long-Term Debt	234.2	188.6	239.5	0.0	0.0	0.0	0.0	0.0
Other Long-Term Liabilities	2.3	4.8	10.0	12.9	14.8	16.8	18.9	21.3
Long-Term Liabilities	**236.5**	**193.4**	**249.5**	**12.9**	**14.8**	**16.8**	**19.0**	**21.4**
TOTAL LIABILITIES	**1,409.6**	**1,398.3**	**1,509.4**	**1,544.9**	**1,488.5**	**1,688.0**	**1,907.5**	**2,149.1**
Shareholders' Equity	**60.9**	**170.3**	**210.6**	**332.0**	**492.9**	**691.8**	**899.4**	**1,141.6**
TOTAL LIABILITIES & EQUITY	**1,470.5**	**1,568.6**	**1,720.0**	**1,876.9**	**1,981.4**	**2,379.8**	**2,806.9**	**3,290.7**

Source: Company reports and J.P. Morgan estimates.

Table 12: Cash flow statement

R$ million

Summary Cash Flow(R$ million)	2011	2012	2013E	2014E	2015E	2016E	2017E
Cash from Operating Activities							
Net income	109.8	20.2	113.7	160.9	199.0	269.0	318.0
Depreciation & Amortization	(3.7)	11.5	24.7	30.0	35.5	42.8	51.7
Goodwill Tax Benefit	26.5	26.5	47.7	47.7	47.7	15.9	0.0
Change in working capital	(183.4)	(19.6)	(269.7)	61.9	(193.7)	(191.3)	(121.1)
Others BS non-working capital items	0.7	4.2	0.9	0.9	1.0	1.1	1.2
Other items	392.5	(21.9)	0.3	0.0	0.0	0.0	0.0
Total	**342.4**	**20.8**	**(82.4)**	**301.4**	**89.5**	**137.5**	**249.9**
Cash from Investing Activities							
Capex	(20.6)	(38.9)	(32.1)	(32.2)	(41.7)	(50.0)	(59.7)
Intangible Acquisition	0.0	(73.1)	(7.9)	0.0	0.0	0.0	0.0
Total	**(20.6)**	**(112.0)**	**(40.0)**	**(32.2)**	**(41.7)**	**(50.0)**	**(59.7)**
Cash from Financing Activities							
Change in ST Debt	0.3	50.7	157.8	(252.7)	0.0	0.0	0.0
Change in LT Debt	(45.6)	50.9	(239.5)	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	(61.3)	(75.8)
Share Buy-Back	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**(45.3)**	**101.6**	**(81.6)**	**(252.7)**	**0.0**	**(61.3)**	**(75.8)**
Net change in cash	**276.5**	**10.5**	**(204.0)**	**16.4**	**47.7**	**26.1**	**114.4**
Net Cash at Beginning	0.0	276.5	287.0	83.0	99.4	147.2	173.2
Net Cash at End	276.5	287.0	83.0	99.4	147.2	173.2	287.6

Source: Company reports and J.P. Morgan estimates.

Appendix II: Management Team

Table 13: Management team

Name	Position	Background
Guilherme Paulus	Chairman	More than 40 years of experience in leisure industry. Co-founded CVC in 1972
Luiz Eduado Falco	Chief Executive Officer	Mr. Falco has extensive experience on the tourism sector, having started his career at TAM Airlines. During his 20 years there, he has held positions in the operations, sales, marketing and strategy areas. From 2006 to 2011, Mr. Falco was the CEO for telecommunications company Oi, where he was responsible for the rollout of mobile operations. Mr. Falco joined CVC in March 2013.
Valter Patriani	Sales & Product VP	Mr. Patriani was CEO for CVC from 2007 to 2011, when he left the company. He was brought back on April 2013 as Sales & Product VP. Mr. Patriani joined CVC in 1978 as a salesman.
Luiz Fernando Fogaça	CFO	Mr. Fogaça has 28 years of experience in financial planning, management and controlling. He held positions at Panamco (1994-2002) and FEMSA (2003-2010) before joining CVC in 2010.
Elton de Oliveira	Chief Legal Officer	Mr. Oliveira has 15 years of experience in corporate law, having held positions at Votorantim Group and ERB. He also has a lot of experience in corporate transactions, including M&As and IPOs. Mr. Oliveira joined CVC in 2011.
Miguel Alcantara	Chief Technology Officer	Mr. Alcantara has 23 years of IT experience. Over his career, he has held positions at Accenture, Net and Santander.
Adriano Santana	COO	Mr. Santana has over 20 years of experience in the tourism industry. During his career, he held positions at Soletur, Tam Viagens and Nascimento Turismo. Mr. Santana joined CVC in October 2013.

Source: CVC.

CVC Brasil: Summary of Financials

Income Statement	FY12A	FY13E	FY14E	FY15E	FY16E
Revenues	623	639	719	800	889
Cost of goods sold	-	-	-	-	-
SG&A	(365)	(343)	(344)	(355)	(376)
Operating Profit (EBIT)	**161**	**263**	**339**	**402**	**462**
EBIT Margin	**50.8%**	**48.4%**	**50.7%**	**51.6%**	**52.6%**
Depreciation	(5)	(5)	(5)	(5)	(5)
EBITDA	**172**	**287**	**369**	**437**	**504**
EBITDA margin	**52.6%**	**52.3%**	**54.8%**	**56.1%**	**57.4%**
Financial income	15	10	11	14	18
Financial expense	(134)	(101)	(116)	(120)	(107)
FX & Monetary gains (losses)	-	-	-	-	-
Other Nonoperating income	-	-	-	-	-
Equity income	-	-	-	-	-
EBT	**42**	**171**	**234**	**296**	**373**
Taxes	(22)	(57)	(73)	(97)	(104)
Minority interest	-	-	-	-	-
Extraordinary	-	-	-	-	-
Net income	**20**	**114**	**161**	**199**	**269**
Net income margin	27.3%	30.8%	32.0%	31.6%	32.1%
EPS	0.16	0.88	1.24	1.53	2.07
Revenue growth	4.6%	2.6%	12.5%	11.3%	11.1%
EBITDA growth	**2.1%**	**1.9%**	**18.0%**	**13.8%**	**13.7%**
Net income growth	(81.6%)	464.4%	41.4%	23.7%	35.2%
FCF growth	14.9%	(153.8%)	(835.7%)	(65.1%)	26.5%

Balance Sheet	FY12A	FY13E	FY14E	FY15E	FY16E
Cash	287	83	99	147	173
Accounts receivable	788	1,165	1,243	1,585	1,940
Inventories	-	-	-	-	-
Other current assets	298	306	360	409	464
Net PP&E	16	12	12	12	13
Long term Investment	-	-	-	-	-
Other assets	217	179	132	86	71
Total assets	**1,720**	**1,877**	**1,981**	**2,380**	**2,807**
Short-term debt	96	254	2	2	2
Accounts payable	1,068	1,176	1,356	1,538	1,738
Other current liabilities	96	101	116	132	149
Long-term debt	239	0	0	0	0
Deferred taxes	-	-	-	-	-
Other liabilities	10	13	15	17	19
Total liabilities	**1,509**	**1,545**	**1,489**	**1,688**	**1,908**
Minority interest	-	-	-	-	-
Shareholders' equity	211	332	493	692	899
Liabilities + Equity	**1,720**	**1,877**	**1,981**	**2,380**	**2,807**
Net debt	**49**	**171**	**(98)**	**(146)**	**(172)**
Net Debt/Equity	23.2%	51.6%	(19.9%)	(21.0%)	(19.1%)
Net Debt/Capital	17.2%	58.0%	(76.5%)	(9493.2%)	(11193.1%)
Net Debt/EBITDA	0.1	0.5	-0.2	-0.3	-0.3

Operating Data, Ratios	FY12A	FY13E	FY14E	FY15E	FY16E
Capex	(39)	(32)	(32)	(42)	(50)
Change in working capital	(20)	(270)	62	(194)	(191)
Free cash flow	**87**	**(47)**	**344**	**120**	**152**
Dividends	0	0	0	0	(61)
Dividend % of net income	0.0%	0.0%	0.0%	0.0%	25.3%
Capex/Depreciation	8.5	7.0	6.8	8.7	9.9
Capex/Sales	6.2%	5.0%	4.5%	5.2%	5.6%
Working capital	114	22	229	471	688
Working capital/sales	0.2	0.0	0.3	0.6	0.8
Sales Area (Sq,m)	-	-	-	-	-
Floor Space Growth	-	-	-	-	-
No. of Stores	682	744	824	919	1,014
SSS growth (nominal terms)	0.2%	12.3%	10.6%	12.1%	12.0%
Capex	**(39)**	**(32)**	**(32)**	**(42)**	**(50)**
Maintenance	-	-	-	-	-

Valuation, Macro	FY12A	FY13E	FY14E	FY15E	FY16E
EV/EBITDA	**8.3**	**7.8**	**6.2**	**5.1**	**4.2**
P/E	100.4	19.5	13.9	11.3	8.3
P/BV	-	-	-	-	-
P/S	3.2	3.5	3.1	2.8	2.5
FCF yield	**4.3%**	**(2.1%)**	**15.4%**	**5.4%**	**6.8%**
Dividend yield	0.0%	0.0%	0.0%	0.0%	3.0%
ROE	89.3%	72.6%	55.8%	42.6%	35.9%
Net income margin	27.3%	30.8%	32.0%	31.6%	32.1%
Net revenue/Assets	0.4	0.4	0.4	0.4	0.3
Assets/Equity	8.6	6.6	4.7	3.7	3.3
ROCE	**98.5%**	**77.3%**	**204.6%**	**18436.1%**	**22118.1%**
Shares	130	130	130	130	130
WACC	**14.4%**				
Cost of equity	**14.4%**				
Cost of debt	**6.4%**				

Source: Company reports and J.P. Morgan estimates.

Note: R$ in millions (except per-share data).Fiscal year ends Dec

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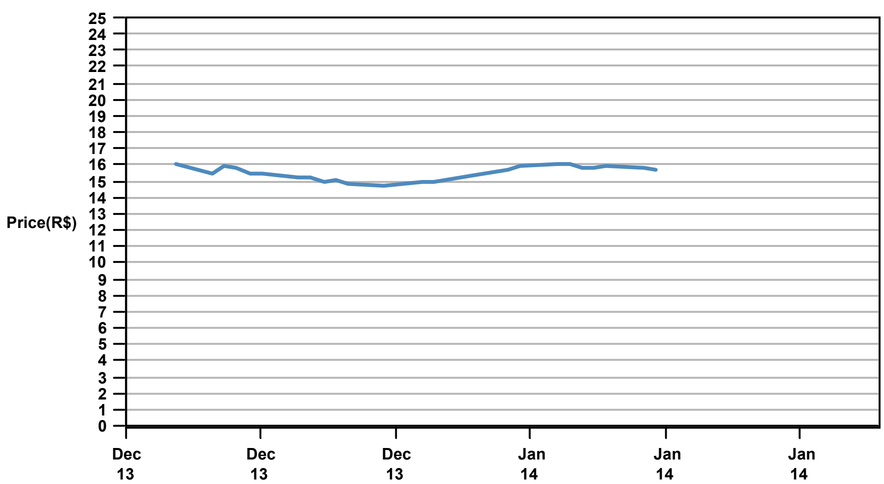
CVC Brasil (CVCB3.SA, CVCB3 BZ) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

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