Y 2019 Earnings Call

Company Participants

- Daniel Sonder, Chief Financial Officer
- Marcela Souza Bretas, Investor Relations, Strategic Planning, Partnerships and M&A

Other Participants

- Domingos Falavina, Analyst
- Eduardo Nishio, Analyst
- Mario Pierry, Analyst
- Otavio Tanganelli, Analsyt
- Thomas Peredo, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Audio Conference Call about the Earnings Results of B3 for the Fourth Quarter of 2019. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded and broadcasted live via webcast. The replay will be available after the event is concluded.

I would now like to turn the conference over to Mr. Daniel Sonder, Chief Financial Officer of B3.

Daniel Sonder {BIO 18250247 <GO>}

Hello. Good morning, everyone. And thank you for coming to our fourth quarter 2019 earnings conference call. I'd like to welcome you all. I'm here with Marcela Bretas, Head of our Investor Relations team as well as the Finance and Investor Relations teams. And I would like to welcome Marcela to this call, it's her first conference call as Head of our Investor Relations team. Marcela has been with the company for five years and I'm happy that she has accepted this new position. I would also like to mention my deep, deep thanks to our friend, Rogerio Santana, who accepted to take another leadership role in the company and who did a fantastic job for the past six years as our Head of IR. And I'd like to thank everyone in the team also for preparing the documents. And on behalf of the entire executive team of B3, I'd like to thank all of you shareholders for your continued trust and your support as well as the analyst community.

We started the presentation in slide three, where I would like to highlight some important achievements and figures for 2019 before we dive into the fourth quarter. With the stability of interest rates at historically low levels, 2019 marked the consolidation of a new era for markets in Brazil, the greater sophistication and diversification of investors' portfolios, greater demand for new products and more interest for the existing ones. Looking at the supply side of financial Securities, we see Brazilian companies increasingly turning to the domestic capital markets as a source of long-term financing, both through equity and through debt. In this scenario, our clients substantially increased our business using our platforms, creating operational records in both the listed and over-the-counter markets. The ADTV in cash equities market reached BRL16.7 billion, an increase of 41% in relation to 2019 -- 2018, pardon me. And the average daily value -- volume of listed derivatives grew 31% over the course of the year. It is also worth mentioning the almost BRL90 billion raised through 42 public equity offerings during the year and the growth of more than 70% in the average number of accounts in the cash equity depository, mainly for retail clients.

B3 supported this expansion of the markets by intensifying our initiatives on three strategic pillars, operational excellence, services and product development, and pricing and tariffs model, always having the client as a focus of our project and upholding the expectations of our regulators.

Regarding operational excellence, the company's continued investment in technology led to an availability of 99.96% in B3's platforms in 2019. The company also introduced a new model for our operational customer service function with roughly 200 employees dedicated to improving user experience in daily routines for the services provided by B3. In the product development front, B3 has delivered more than 40 new products and services in the listed and over-the-counter markets since August 2018 and we expect to deliver an additional 40 products during 2020. This is possible, thanks to our new structure for product development, which involves conducting multiple projects at the same time and coordination with the regulatory bodies, service providers and, most importantly of all, our clients to participate directly in the several stages of the product development cycle.

This alignment with clients and our mission to develop the Brazilian capital markets resulted in adjustments also to fees and incentives during 2019. At the beginning of the year, the company reinforced our incentive policies for individuals in the cash equities depository and Treasury Direct. More recently at the end of the year, 2019, B3 released new policies on fees for the equities and OTC markets, which will be implemented in 2020. Through these changes, we sought to address specific demands of different client groups aiming to share the benefits of scale and operational leverage with the market.

The execution of B3 strategic plan is based on, one, strengthening the core business, two, expanding the range of products and services directly associated with these main markets, and three, seeking selective diversification opportunities in adjacent areas. In line with this plan, the company made two small acquisitions in 2019, BLK and Portal de Documentos, which despite providing only a marginal financial contribution in the short-term increased and diversified the offer of products to B3's customers. In this context, the company's revenue totaled BRL6.6 billion in 2019, up by 23% against 2018 with recurring net income of BRL3.2 billion, also up 23% year-on-year with distributions of more than BRL3.5 billion or 130% of net income.

I'd like to now move to slide four, where we move to discussing the operational performance of 4Q 2019. B3 ended the year on a high note, propelled by the positive scenario mentioned earlier, the last quarter of 2019 was marked by record volumes in cash equities and listed derivatives. ADTV in cash equities of BRL19 billion and ADV in listed derivatives of 4.5 million contracts. Additionally, B3 has continued to work to make sure the local capital market develops into the best source of funding for firms in that scenario of low interest rates and also in a scenario of the reduction of the lending by state-owned banks. In the fourth quarter of 2019, B3 hosted 15 follow-ons and three IPOs totaling BRL32 billion. We also saw strong figures in the OTC market with new issues of fixed income increasing by 13% and new transactions in the derivative market increasing by 18%.

In terms of the financial highlights, we should look at slide five, where we talk about the financial performance of 4Q '19. Backed up by the strong operational performance, our revenues reached BRL1.8 billion in the quarter, an increase of 21% compared to 4Q '18. Our adjusted expenses were BRL312 million, 15% higher than in 4Q '18 which we will explain more details later in the presentation. EBITDA, adjusted for non-recurring items, reached BRL1.2 billion, an increase of 29% over the previous year, with an EBITDA margin of 74.7%. Our recurring net income reached BRL825 million, an increase of 21%, reflecting the improvement in operational performance, which was partially offset by the increase in income tax and social contribution.

Now, I will turn over the call to Marcela and she'll give you more details about our operational performance.

Marcela Souza Bretas

Thank you, Daniel. Hello, everyone. I'm very excited to be joining B3's IR team. Thank you for the opportunity.

I would like to ask you all to turn to page six, where we will see the performance of our listed equities segment. Revenues in the segment grew 30% year-over-year. ADTV in cash equities reached close to BRL19 billion, up 25% versus the fourth quarter of 2018, reflecting the appreciation of mark -- market capitalization of listed companies in the period. ADV of stock index future contracts grew by 70%, reflecting the growth in trading mini contracts, notably by individual investors and high-frequency traders. The number of active accounts in the CSD almost doubled year-over-year, reaching 1.7 million. The revenue impact of this increase was partially offset by incentive programs to brokerage firms, as we have observed throughout 2019. Finally, 18 equity offers took place in the fourth quarter of '19 driving listing and services for issuers revenue line up by 60%.

Moving on to slide seven, you find details on the performance of the listed fixed income currency and commodity derivatives, where we had a 31% increase in revenues. The main driver of performance was the growth of ADV, particularly of the BRL interest rate contracts, which more than doubled in the period, reflecting the change in the outlook for interest rates in Brazil, both in relation to recent cuts in the basic interest rate as well as the expectation of further changes in the coming quarters.

Next on slide eight, we show the performance of our OTC segment. Fixed income revenues expanded 15% year-over-year. Volume of new issues and outstanding positions of banking funding instruments increased by 13% and 11%, respectively. Additionally, corporate debt issuances more than offset redemption of debentures issued by leasing companies. Treasury Direct continued to deliver strong growth rates with the number of investors increasing by 57% and the outstanding invested amount growing by 23%, a reversal of provision related to the investor incentive program for this product also positively impacted this revenue line. In the OTC's derivatives segment, new transactions amounted to BRL3 trillion, largely concentrated in FX swaps and forward contracts.

In slide nine, we show revenues for the infrastructure for financing segment, which decreased 16% year-over-year. The National Leins System or SNG was positively impacted by the 13% increase in the number of vehicles financed. In the Contracts System, we implemented changes in the business model of our services in some states of Brazil. Previously, B3 would be hired by lenders and send the data from the vehicle financing contracts to the registering company. Now, it's those companies subject to previous authorization by the lending institutions that it will access B3's platform in order to retrieve such data. There is an important financial impact resulting from this new model. There are no revenue-linked expenses related to payments made to registering companies reducing both B3 revenues and expenses, given that the prices charged by B3 previously incorporated the cost of the registering company fees. Additionally under this new model, the average fee earned by B3 was also reduced. Lastly, we saw a positive impact from Portal de Documentos in the revenues of this segment, which is recorded under the revenue line, others.

Moving on to slide 10, we can see the performance of the technology, data and services segment, which grew 6%, positively impacted by US dollar-linked data revenues, the consolidation of BLK revenues and an 8% increase in the number of OTC clients.

In the next slide, we show the company's adjusted expenses, which reached BRL312 million in the fourth quarter 2019, a 14% increase year-over-year. The adjusted personnel expenses grew 27%, mainly as a consequence of the annual collective bargain agreement readjustment, the consolidation of personnel expenses from Portal de Documentos and BLK, the two companies we recently acquired and also as a consequence of new hires.

Now, I will hand over the presentation back to Daniel, who will present other financial highlights.

Daniel Sonder {BIO 18250247 <GO>}

Thank you very much. In slide 12, we demonstrate our financial robustness with a solid cash position and a very healthy balance sheet. This is an important part of the business of being a credible counterparty in the financial system. On the left side, we show the total cash amounted to BRL10.8 billion at the end of the quarter composed by B3's own cash and third party cash, mainly related to collateral players and cash by clients. In the light blue bars of this chart, you find B3's own cash amounting to BRL7 billion in the fourth quarter of '19, which includes BRL724 million of interest on capital and dividends already paid out to shareholders in early January 2020. On the right side, you see the company's debt profile, pardon me, and the amortization schedule. As previously announced, our guidance for financial leverage for 2020 is 1.5 times gross debt to last 12 months recurring EBITDA, and this ratio was 1 times at the end of fourth quarter '19. For the fiscal year 2019, the payout ratio was 130%. And finally, we reaffirm our payout ratio guidance for 2020 between 120% and 150% of IFRS net income.

Moving to the last slide of our presentation, we show the amount of cash generated by the company. As you can see on the left table on your -- on the chart, there was a significant increase in the amount of cash generated during the year, which reached BRL4.9 billion. The two main factors behind this solid growth are the strong operating performance as described in the previous slide, as well as the BRL1.2 billion debt that was raised in the second quarter. On the right side of the slide, we show the uses of the cash generated by the company. Distributions to shareholders through interest on capital, dividends and share buybacks referring to the fiscal year of 2019 totaled BRL3.5 billion in the year.

With this, I'd like to conclude the presentation and open our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session from investors and analysts. (Operator Instructions) Our first question comes from Mario Pierry, Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. Congratulations on the results. Let me ask you two questions. So the first one is on your CapEx for 2020, right. Your budget is roughly BRL300 million -- BRL300 million to BRL330 million versus BRL300 million in 2019. Can you just give us some color how much of this is being invested in technology and your capacity to continue to do these volumes that we're seeing in Brazil, if you will eventually need to expand your capacity? How do you feel about -- if volumes continue to grow at this pace, is there like any programmed significant increase in CapEx? Second question is related to the regulatory environments. If you can discuss a little bit, the regulator was proposing a public hearing. I just wanted to hear from you, what are you seeing from the regulator, what should we be expecting? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Mario, thank you very much. And let me speak first about the CapEx. So range for this year is BRL300 million to BRL330 million and we closed last year with BRL279 million, just below the top of the range of BRL280 million. And we feel that the numbers that we have right now for 2020 are sufficient to take care of all of our needs for technology as well as planned development. As you know, we've been talking about a number of BRL200 million to BRL250 million as the necessary CapEx for the company to, A, remain very strong and reliable and resilient in terms of our capacity and systems and, B, continue to develop services and products on to our platforms, which we capitalize. The additional amounts both this year and next year and there's going to be a little bit in 2021 have to do with the fact that we are refurbishing our headquarters to make it a little bit nicer for our people to work and we are also growing a little bit the company, so that was something that we felt was really important.

In terms of IT and capacity, given the new market environment, we obviously have been dealing with sharp increase in our volumes. We feel confident that we can deal with those volumes, obviously, our IT and operations team have been working very hard and very closely with market participants to make sure that any issues that arise are adequately addressed. We had already planned, as we do every year, that some of our CapEx money goes into new equipment. What usually happens, Mario, is that when you change an old equipment that was acquired five or six years ago for a new one, you also add capacity through that process. So it's not that you're changing the same thing for the same capacity, for the same capacity with the new machinery, but you're actually adding capacity through that. So we already had that in our pipeline of projects to invest in certain areas of the business during this year. And at this point, we don't feel that the new volumes will demand additional CapEx.

Now, obviously, we -- if we see that volumes continue to grow at a significant pace, we're going to have to look at the balance between what we had planned to do and how we're allocating our CapEx and I evaluate if there is need to acquire even more equipment or change something else within our systems to be able to deal with that. But I think I'm very proud of the way that this has been led or executed in the company over the last few days and we feel that our plans are adequate for expanding capacity as the market grows.

In terms of the regulation, just to give you a brief overview, we saw earlier this year the release by the regulator of a public hearing that deals directly with the business of B3. It's broken up into three long documents. The company has been spending a lot of time discussing, understanding and preparing to comment on this and we have also had interactions with the regulators on this. Obviously, we'll make our views formal at the due date, which is in the end of April. And -- April 28. So everyone will have visibility of how we respond to those hearings. We feel that the regulator is moving forward with something that actually started about seven or eight years ago, around 2012, 2013 and it was I think already known by the investor community as well as us that at some point they would come out with the final parts of the regulation to allow for the growth that everyone expects in the market and that has to do with the way that new exchanges would exist.

We -- as you know, we concluded the discussion regarding our depository pricing. We have already announced that we stand ready to provide clearing and depository services to other companies that wish to operate in Brazil. And I think that the new rules that are in place would just give clarity as to the roles and responsibilities of each one of the players in this market. So, we are giving comments. It's a broad range of subjects. If you want to get into any more details on any one of them, let me know and I'll try to share with you whatever we have at this point.

Q - Mario Pierry {BIO 1505554 <GO>}

No, no. That was great. The overview was perfect. And just on the CapEx, what percentage of your CapEx is in dollars? And what was the FX rates that you were assuming when you gave your guidance?

A - Daniel Sonder {BIO 18250247 <GO>}

It's about a quarter of our CapEx essentially is in dollars. We usually use the prevailing rate, CapEx prevailing FX rate at the end of the year to -- when we prepare the budget to make those numbers, but I think that the range that we have in terms of the total CapEx should be able to accommodate any FX changes that we might have along the way. So, we're not terribly concerned at this point. Obviously, we will do what we have to do in terms of executing our CapEx plans and doing what's right for the company. And if at some point in the year because of FX, we feel that we have to revise the guidance, we will do so, it's not the case at this point.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, very clear. Thank you.

Operator

The next question comes from Thomas Peredo, BTG Pactual.

Q - Thomas Peredo {BIO 21712295 <GO>}

Hi, Sonder and team. Thanks for the opportunity. I have two questions, if I may. The first one on volumes for the year. I know that the company doesn't provide any guidance and it is very challenging task to do that. But volumes in the Q -- in the first Q are very strong, volumes until March and there is a change in the respects in the Brazilian and increased volatility that this should help the first quarter earnings. But I want to get a bit more of -- more color on the outlook that the company sees for 2020. If you expect that this volatility is temporary and continue to believe the financial deepening and lower long-term interest rates will continue to drive strong volumes looking forward? And the second question is a follow-up on Mario's question about IT and CapEx. But if you could share a bit more of detail how the trading and post-trading systems are average message per second and trades for day are away from the capacity limits of each system because with the new pricing policy that will be effective by the second half, you will make much cheaper and smaller trades and more high-frequency trading trade. So do you expect a significant increase in those average that could require an increase in the capacity of those systems? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you, Thomas. So regarding the volumes and the volatility that we've seen, obviously, everyone in the call is fully tuned in on what the news are. I think we are going through a period of a lot of uncertainty and a lot of lack of visibility on what the economic impact of the virus threat will be in several economies. It seems that the monetary authorities of several countries have taken action and put this as a high priority to try to mitigate the effects. But right now, it's very difficult to see what's going to be the outcome, whether we're going to recover from this rather quickly and the markets will bounce back or whether we will have a sustained period of lower growth and therefore we will really see an adjustment in expectations for profitability of companies and therefore valuations. So we have seen the first few months of the year with extremely high volumes here in B3 in Brazil that was sort of the result of this positive environment for Brazil's -- a number of IPOs and additional retail customers coming in and so forth. Now, over the last few days, we have also seen higher -- extremely high volumes, but for different reasons, which is the repercussions here of this global uncertainty. We will see how that goes. And I think we'll be in a better position to look at the rest of the year probably in a few weeks from now than we are today.

In terms of capacity and our systems, we feel confident that we are ready to deal with the volumes that we have seen recently and we have again worked very hard, our IT and operations team, to make sure that any impacts and the delays that potentially could result from that are dealt adequately between us and market participants. I feel that everyone in the market has been working very hard, global exchanges, local brokers, banks and so on and we are happy that we have been able to deal with these sharp and sudden increases in volume.

I -- it doesn't seem to us that our pricing policy is again something that will necessarily push the company to have to make more investments than it would otherwise have to. Our pricing policy is geared towards increasing our volumes, towards affording to our clients the ability to trade more with us and therefore enjoy deeper discounts as they move forward in the volume curve. And I'm absolutely confident that the company will have the systems to deal with it within the CapEx plan that we have set out. And if at some point we are fortunate enough to have even more volumes, then we'll have to make the investments as we have done over the last several decades. And I think the company has a brilliant track record of providing the capacity that the market needs and working with a margin of safety that is enough to deal with surprises, such as we've seen in the last few days.

Q - Thomas Peredo {BIO 21712295 <GO>}

All right, thank you.

Operator

The next question comes from Otavio Tanganelli, Credit Suisse.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Hi, hi. Congratulations on the results. I only have one question. If you could -- I know the public hearing is still open and the deadline is set for April, but I wanted to see if you have any update from the other players if you agree or not with their claims. And if you still think that working with the base case that competition is probably going to be only on the trading business and not the post-trading segment as well. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Hi, Otavio. We have been mostly focused over the last few months on developing our own work internally in terms of analyzing the different aspects of the public hearing and preparing our analysis for which responses we will give. We have interacted with a few market players both in Brazil and some abroad that also are interested in the development of the Brazilian financial infrastructure system and model. And we know that some other people are preparing answers, but I'm not sure that anyone has yet concluded the work. So we still have about 60 days, a little bit less than 60 days, and I'm sure that everyone now is in the research phase and will kind of conclude their views and make their positions over the next few weeks clearer. So I think there is areas where there is more consensus, areas where there's less consensus about the proposals that were put out and we'll have to wait and see at the public hearing when people actually file their answers how that plays out. And then the regulator will have to obviously take it's time to absorb all these comments and come to its final conclusion, which we -- I'm sure they're going to do very diligently and very carefully looking at the overall stability, competitiveness and fairness of the Brazilian market.

And your second point, if you will, was --?

Q - Otavio Tanganelli {BIO 20615779 <GO>}

I think that was it, Sonder.

A - Daniel Sonder {BIO 18250247 <GO>}

Sorry. Sorry, Otavio, I thought you had a second point.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Yeah. No worries. Thank you for the explanation.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you. And sorry about that. As we move forward, we'll give more visibility on where we stand on the different points.

Operator

The next question comes from Eduardo Nishio, Banco Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Good morning, thank you for the opportunity. I have just one question on competition. If you could update us your thoughts on the several -- probably increasing competition in several business lines. First on the local equity markets, if your base case scenario still is that the competition will come on the trading side only even after the agreement on the arbitrage dispute with ATS and now with the public hearings, if that is still your base case scenario? US equity market exchanges, if you -- what's the plans, if you could give us an update of the plans to launch BDRs for the Brazilian companies in US? On the contract registration, if you can give us another update on competition, how you see that after the several pricing adjustments you did? And on the SNG Lien business, if you could give us an update on data transition initiatives to create a new database? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. Thank you, Nishio. And so let me start with the first question, which I think is also linked to a point that Otavio had made earlier. Look, I think that the regulatory environment in Brazil is one that will allow for the establishment of both new venues for trading as well as new venues for clearing. I think that's the environment, which we're going to be in, and that's absolutely fine. We have already made it clear that we would provide clearing and depository services for clients' new trading venues as well as depository services for clients of companies that may wish to do trading and clearing. We feel very strongly that the level of service that we provide and the quality and the resilience and the synergies that we provide to our clients will be the key aspect in them deciding to support us and to continue to make B3 their first choice, irrespective of other efforts.

Now, I want to make the point that as we have discussed before, if you look globally, it seems to us that the community of stakeholders, meaning investors, brokers, clearing members and to some extent the regulators have tended to support more often than not a model that has one central clearing house for that jurisdiction and more than one trading venue. If you look around the globe, that's what you will find in most instances. It's not the only model, but it's one that has counted with a lot of support. So when you look at the size of the Brazilian market and the nature of the risks involved in clearing house and the nature of the -- or the extent of the effort involved in connecting to multiple clearing houses and making them possibly connect to one another, that leads us to believe that that should also be the case in Brazil. But that's just a sort of, let's say, an expectation that we have based on an extrapolation of what has happened in other countries. It doesn't mean that we favor one model versus the other, it's not up to us. We will be here for our clients, for our regulators doing the right thing and playing a fair competitive game in a market that will be more sophisticated and more robust whether we have more than one trading place or more than one trading and clearing house. So we are fine with all models.

With respect to your second point on BDRs, the CVM has put out a public hearing. The answers I think have been already turned in and we submitted our considerations to the regulator regarding the BDRs. There is I think a good indication that the regulator wants this market to develop both for companies that have their business based in Brazil, but have their legal entities registered and listed abroad and how to bring those listings to Brazil as well as making the market for non-sponsored BDRs, i.e., BDRs of any other companies more open to other types of investors in Brazil. We are fully supportive of these measures. We think that they allow more flexibility for Brazilian investors to diversify their portfolios into all the assets that they want, including those of Brazilian-based businesses not registered here or not listed originally here and also geographically diversify their portfolios through these non-sponsored BDRs. So we hope this measure comes through as quickly as practicable and we commend the regulator for putting these ideas forward and looking at that aspect of the market development.

The third point you mentioned has to do with the contracts system. And I just want to mention that we -- during the last year, we worked very hard with our clients through the banks, which are our clients to change the model that we had slightly and that means that we are charging them less and we are paying the registration companies less, so there is an impact on revenue, there is an impact on expense, we left a little bit of, let's say, net result on the table throughout this, but I think it's a better model for everyone and we're well positioned in several states to continue to provide a good service. So we don't -- the -- other people that are involved in this, there are other companies operating in some other states, we don't expect to see additional changes in this business model over the foreseeable future. But if I had said that a year before last or last, I would have been wrong. So this is -- continues to be a product, where sometimes there are changes in the rules. I think we've been shown -- we've been -- we have shown that we are skilled in adapting to those rules and continue to play the role that our clients expect in this and make some money as well. So we feel pretty confident.

In the SNG, the Liens System, the National Liens System, I think your question is related to the regulation that suggests that the government would put together its own database to compete with us. Again, this has been a discussion that's been going on for a couple of years now. We continue to work to persuade both the government agencies as well as the market that uses this system that there is absolutely no need for us to construct another database, but we'll see where it goes. So we -- again, I think we provide a sound service, there is a lot of value in -- there's been one central database rather than more than one. So we will continue to argue with that case, but we'll have to see where the regulation goes.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you, very clear. Just a follow-up here. For BDRs, the plan is probably second Q still on -- was that the timeline?

A - Daniel Sonder {BIO 18250247 <GO>}

Well, the timeline now depends on the regulator. But considering the first week of March, I would probably say that something for the first -- for the second quarter, yeah. But it depends on how much time they will take to review the comments that they received.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Great, thank you.

Operator

The next question comes from Domingos Falavina, JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hello, Sonder and everybody. Thank you also for taking the call. Two quick questions -- I'm sorry, two quick questions. The first one is just on the financial income side, actually more specifically on financial expenses. There was a line other financial expenses for BRL51.8 million for the year that compares to about BRL40 million and no disclosure and it really ramped up in the 4Q, about BRL30 million in FEMSA [ph] losses in financial income. So just if you could explain a little bit that. Second question is on taxes. Going through the -- the taxes came in a bit higher than what we expected and we saw also within others BRL57 million of taxes. Looking at the 4Q seems like our adjustments to permanent assets that used to be booked in this line, but it also accelerated by BRL30 million to BRL40 million. So just wondering what those two items were.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay, thank you so much. So I'll take the first one and then I'll have Marcela help me with the tax line. So on the financial expenses line, this is a non-recurring item. I don't expect that we should have this level going forward. There was one particular item in there, which -- some items have to do with the FX variation and then there was one particular item, which had to do with the mark-to-market on certain bonds. We have relationship with one of the entities in the group through which we support some education programs and social investment programs. And we decided to make a contribution to that through some bonds that we hold in our portfolio, it's not a significant amount in the total cash of the company, it's just a different way of making our contribution in a permanent fashion. And the accounting result or the accounting impact of that was the market-to-market of the bonds. So I can discuss with that -- that with you separately offline, if you'd like to go through it, but I just want to mention that it's something that we shouldn't expect to have a recurring -- a recurrence in the next few quarters. It was a one-off transaction that we have done to fund the activities that I just mentioned.

So I'll turn it over to Marcela now.

A - Marcela Souza Bretas

So Domingos, I think you're referring to the other additional exclusions line in the income tax expense line. And though that line specifically refers to non-deductible expenses and non-taxable revenues from B3, that includes like currency variation on judicial deposits that we hold, that includes market-to-market of that -- transaction that Sonder just mentioned and a few other effects. So it's basically that. Those are also not -- most of them are like one-off as well and not recurring items.

Q - Domingos Falavina {BIO 16313407 <GO>}

All right. So just to be sure, if FX depreciates, we shouldn't necessarily see those lines being impacted in the future?

A - Marcela Souza Bretas

Which line?

Q - Domingos Falavina {BIO 16313407 <GO>}

Both, higher tax -- effective tax rate as a result of non-deductible gains and/or higher expense associated with bonds used to sponsor educational programs.

A - Marcela Souza Bretas

No. Those two lines are not directly linked to FX. What you could see is the change in tax rate related to the overhedge transaction that we have.

Q - Domingos Falavina {BIO 16313407 <GO>}

No, but that one is against tax. No, it's fine. All right, super clear. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you.

Operator

(Operator Instructions) The next question comes from Tito Labarta, Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, Daniel. Hi, Marcela. Thanks for the call. Just a couple of questions also. Just first, can you just give us an update on what you're seeing in terms of the IPO pipeline and just given the recent market volatility, any just kind of update that you're hearing there on how that could evolve? And then my second question, could you just remind us what percentage of your revenues are in dollars? I remember in the derivatives, a lot of your contracts are in dollars. Just trying to get a sense, what percentage of those revenues are in US dollars? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay, Tito. Thank you very much. So in terms of the IPO pipeline, we have about 20 change offers I think registered at the CVM at this point and we have seen great, let's say, names and conversations between issuers and banks that have come to fruition over the last few weeks with a lot of announcements. We continue to believe that there is underlying good reasons -- good underlying reasons for these IPOs to take place, these are companies that have long trajectories and that now are coming to the market to either fund new projects or give some liquidity to the shareholders. Number of them backed by private equities. And obviously, there is also strength on the retail -- new retail clients that came in and fund managers, especially local ones receiving a lot of money into equity funds.

Having said that, volatility is very, very high as we speak in this call today. And this obviously will lead to some people rethinking whether they want to go public right now, whether they want to accept new price levels, whether there is actually investor appetite for so many offers. And this I think is a natural process that every market goes through and we'll have to see where this ends up in a few weeks, whether we have overcome the fear of uncertainty and the lack of visibility of the impacts of this crisis or whether this is going to be something that will stay for us for a long time.

Just one observation that I wanted to make has to do with small IPO that we had a couple of weeks ago of about BRL200 million. We -- with -- it's called, a company called Preneer [ph] I think it's hopefully the sign that there is a room for market for small and medium companies to list here and to find adequate demand for their IPOs.

A - Marcela Souza Bretas

(Inaudible)

A - Daniel Sonder {BIO 18250247 <GO>}

Yeah. So regarding the exposure to FX in our revenues, it's about -- I would say, around 15% of total revenues are dollar linked. So that's mostly in the derivative segment and also the market data revenues are linked to dollar for the majority.

Q - Tito Labarta {BIO 20837559 <GO>}

Perfect, very clear. Thanks, Daniel.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Daniel Sonder to proceed with his closing statements.

A - Daniel Sonder {BIO 18250247 <GO>}

I would like just to end by thanking again everyone for staying close to us, following up on the details. I think everyone on the call does a fantastic job of understanding our business and we remain 100% available to clear any other questions that you might have online -- offline, sorry. And, again, thanks to the whole team for putting the materials together and for the work of keeping up with our shareholders. So have a good day, guys.

Operator

That does conclude the B3 audio conference for today. Thank you very much for your participation. Have a good afternoon, and thank you for using Chorus Call Brazil.