Y 2013 Earnings Call

Company Participants

- Andre Santos Esteves, Chief Executive Officer
- Marcelo Kalim, Chief Financial Officer

Other Participants

- Gilberto Tonello, Analyst
- Mario Pierry, Analyst

Presentation

Operator

Good morning and welcome to the Fourth Quarter and Year of 2013 Results Conference Call of BTG Pactual. With us here today, we have Mr. Andre Esteves, Mr. Marcelo Kalim, Mr. Joao Dantas, Mr. Pedro da Rocha Lima. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Bank's presentation. After BTG Pactual's remarks there will be a question-and-answer session for investors and analysts, when further instructions will be given.(Operator Instructions) Today, we have a simultaneous webcast that may be accessed through the website www.btgpactual.com/ir. There will be a replay facility for this call, for a week from February 19th to February 26th.

Before proceeding let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results and those related to the growth prospects of BTG Pactual. These are merely projections and as such are based exclusively on the expectations of BTG Pactual's management concerning the future of the business.

Such forward-looking statements can substantially on changes in market conditions, government regulations, competitive pressures and performance of the Brazilian economy and the industry among other factors and risks disclose in BTG Pactual's file disclosure documents and are therefore subject to change without prior notice.

Now, I'll turn the floor to Mr. Andre Esteves, who will begin the presentation. Mr. Esteves, please go ahead sir.

Andre Santos Esteves {BIO 1939152 <GO>}

Thank you all for your presence. Good afternoon. I will do a brief introduction and then I will hand over to Marcelo Kalim, our CFO to go into more details. We are very glad with our performance in the fourth quarter of 2013. So we had R$1.8 billion in revenues and R$768 million of net revenue. This was our best quarter of 2013, both in revenues and in net revenues.

Expenses remained under control in line with the last quarters and our coverage ratio that we like very much to highlight capital more or less two times our corp. Remember that the coverage ratio is the franchise related revenues and those not related to capital or risk taken. So it's basically that these interest revenues, which is a good measure of this ramp of the clients business of BTG Pactual.

Total assets were a kind of stable and Basel ratio was 17.8%, which is of strong balance sheet. And this reflects a little bit more conservative approach during the fourth quarter and during the whole 2013 year. Dividends and JCP were R$379 million and it's exactly 25% of our results distributed in February and August, as we guideline it for you in the past.

2013 was an important year for us, even though that was challenging number of assets, especially general distribution regarding emerging markets, Latin America and Brazil. Our reduction in economic growth here in Brazil, one of our key markets and also some macroeconomic assets, which was basically (inaudible) which was an important economic growth in this year.

And we were very glad that we navigated did well all of this challenge, and more than that we kept the bank prepared for 2014 and '15. Our stress scenario that if you keep some of these challenges alive or in other words, we don't expect strong growth in Brazil or Latin America, some of our key markets and in our decision-making process, we are including that. When we approve a credit or when we assume or when we do some investments, we can see a relatively modest growth in Brazil or in other economic in other Latin America economies.

Even though that we had this relatively weak year in terms of economic performance or markets performance, we had this very good results for the full year of 2013. So, as you saw, we had R$5.9 billion of revenues and also 2.775 billion [ph] of net income. So the relevance of results, our shareholders that could move it from 14.1 to 16.1, its all-time higher well equity and I would like to highlight that the equity evolution of BTG Pactual is exactly the net earnings lost the dividend, so it's people to understand and people to compare historically.

We also kept, as I said before all the critical KPIs of costs and income of compensation in coverage ratio, as we expected so coverage ratio is 2:1, compensation ratio at 24% and cost income to 43%. So in line to that's a good results of 2012 and in line to what we expect for the next year.

The return on equity was 18.4% and we don't provide future guidance that we just tell you guys few about our return on asset and I would like to emphasis that, we continue to see a combination of our business providing a return on equity about 20% in the future years. Of course above 20% we can have slightly below 20% might happen in 2013, but we continue to expect about 20% return on equity for the next year including 2014 independent of the economic scenario.

And before handing to Kalim, I also would like to comment certain initiatives that was very important for us in 2013, especially certain investments that we did and we will harvest the benefit in the next year. So in '13, we concluded the integration of our Latin America expansion. So now we have fully fledged operations, not only in Brazil, but in Chile, Peru, Colombia and Mexico.

So it was the full integration of two acquisitions; Celfin and Bolsa y Renta, that now operating under the same brand of BTG Pactual, throughout Latin, the opening of Mexico that is now off and running, and already making profit.

So we concluded this part of geographical expansion, where we committed to you show the IPO, so that's our intention and this was done. We also are concluded what we can see that an important regional expansion inside Brazil. So we opened four new regional office in Brazilia, in Salvador, in Ribeirao Preto and Curitiba, that became fully operational, fully along the 2013 year and will be fully profitable in 2014. So this was another important initiative that we concluded.

And also regarding Banco Pan, that we still some small negative results in our balance sheet, but we are -- I would say close to the end of the operational restructuring, you have the turn around. We still need to fix the capital structure, but the business of Pan [ph] is moving completely in terms of quality, in terms of understanding, in terms of infrastructure and controls. We still have a little bit to do, but we are close to the end of the restructuring debt.

And finally, in 2013 was a very important year of investing in one of new key areas for us inside sales and trading, which is commodity this event. We have been doing commodities for a while, but we do see an opportunity, I'll explain that in a relevant way and last year, during the whole year of 2013, last quarter we already started to collect revenues coming from commodities and we expect to have profits coming from commodities in 2014.

So we can see the regular opportunity, we had a strong beginning with this franchise and expect already some profits now. So these four strategic initiatives impacted a little bit of the results in 2013, but we can see that very important for us in terms of being consistence integration and diversification for our franchise. So more quality of results for the next years to come.

And even with all these initiatives, we achieved this very good results in a weak economic environment. So it's a once more shows the strength and diversification of our franchise. And in order to go ahead with the presentation, I will hand over to Kalim that he will explain to you more details business unit by business unit and after that we will be open to any questions that you want. So, Kalim?

Marcelo Kalim {BIO 16142515 <GO>}

Thanks Andre, and good morning, good afternoon everyone. Thanks for attending this call. You can forward to the presentation here on page six, we decided to add another graph this year, which we call as a revenue mix, and end of the year it's based on the result because the seasonality of similar results that you can present remembered for the full year and to explain a little bit this graph, what we did here is that we did with our business in different categories. The first line is fee business, well it's clearly fee that we generate from activity that will lend us some clients and includes investment bank, asset management and work management.

The second one is the sales and trading, which is let's say the market component of our client facing business. And the third one is corporate lending, which would be the credit component of our client facing business. And all of those three areas, we comprised what we call the clients basically. The last line is principal investment, which is the area of (inaudible).

And a couple of interesting points to make here. First, in all the client facing business, we see a very clear pattern of growth in all the three segments; in fee business, in sales and trading and in corporate lending and each of them are very high component, annual growth rate in those four areas. And corporate lending a little bit more than the other at 45%, and which is then by designed, we decided the beginning of this cycle to expand our corporate lending, which is very successful on achieving that. So that's why these areas has a little bit higher growth that the other one.

And another very interesting point to emphasis here is the stability of relative revenues among the areas. If you look at the right-hand graph in this page, it's very stable, the proportion of the retailer has on total volumes. With that maybe the exception in corporate lending, which you can see increased on 14% in 2010 to 17% in 2013. This shows the stability of our business model in very different business cycles. We can say that 2010, '11, '12 and '13 they were very different years among themselves and our business performance including well relative to one another. So this is a very interesting feature of our business model that I'd like to emphasis.

Also to point out here that out principle investment in those things, at least by mutual more volatile even we believe it will generate a lot of (inaudible) especially in this quarter, which on from component of data or market environment and these currently difference rates of returns throughout the year, there will be risk, but the compound rate is still very attractive. I think, we can go on the presentation on (inaudible).

Now on page eight, we have our total revenues breakdown by units, and if you are at risk more or less fixed that is 44, they will diversified days of revenues, which is through for the quarter and for the year as well and comprising more than 27% for the quarter or 29% for the year, which we believe is a very good diversification of revenue.

Now, I think we can go area by area and we turn to page nine, where we have investment bank. And this quarter of course was a very weak quarter in terms of revenue, not only for ourselves, but for the market in general. We still maintain our leading position in all the products and M&A's and also the capital markets and debt capital market both onshore and offshore. However, the market is pretty weak by itself, its normal, but after some stagnation in the economy, investment bank shows with some lag decrease revenue and this was for more than two in the fourth quarter.

However, we are more optimistic than the fourth quarter growth for 2014. We believe it can be a very similar year for 2013, not similar to this quarter. And this true, because turnout probably transactions were weak, probably transactions everything and also it's leases closed, which will translate in a very significant (inaudible). We are simply optimistic about this segment and it's procedures about our position, our leading position.

And if you turn to page 10, where we have the corporate lending and our revenues reached R$187 million a little bit always in line, but a little higher than the last quarter. And the total credit portfolio reached R$39.6 million, which is higher than last quarter. However, one thing to point out here this growth curves shows at the end of the quarter. So really the revenues for the quarter didn't reflect the new level of the credit portfolio, which is going to translate more stocking in the first quarter of this year. And a little bit of explanation, here we said before that we -- let's say wage about our credit standards even and that what we've seen for the Brazil and then the world economy in general and we decided to not to include so much our credit portfolio, which actually occurred throughout the year. As the year progresses, I think the whole market started to come to the same terms and actually the market came to our credit standard.

So now we see the possibility of increasing our portfolios credit, at the levels that we believe is very positive to the shares. And just to stress out, we are working in a very conservative scenario for the coming months that changes our mind in that case. And just one more comment, we have not seen any problems whatsoever in delinquency rates in our portfolio or the market in general, it's been pretty stable in the last couple of quarters and we believe this is going to be the case going forward.

On page 11, we have sales and trading and our revenues, we have reached R$339 million, which is a pretty normal quarter. And two things that I would like to emphasis; one is that mainly all the areas sales increasing sales and trading contributed to the overall revenue, including commodity, which is I would say the first quarter of the commodity is concluded to (inaudible), which we believe is a very good achievement. We have been investing this area for the last18 months or so. And we believe now in 2013, '14 we are almost at the level that this area it's not exactly that close to that and the last quarter, the last year, it was the first time, the first quarter that the area started to completely improve the result.

Turning to page 12, we have asset management and here our revenues reached R$480 million, as normal because before the year, before fourth quarter is usually the best quarter of the year, as it was last year and this is to acquiring our performance fees of our global hedge funds in the fourth quarter of this year and this is exactly what happened in the last quarter.

Couple of points here, our total assets under the management reached a R$189.5 million, which is more or less stable from last quarter, plus we have negative net new money, which is not anytime of decreasing, but actually just normal less than two weeks from our clients, but the important thing here is to point out the change in the revenue mix. Although, we didn't get revenue money, the most let's say profitable or the more value aggregated products generated more net new money and we can really see that in the growth of the global hedge funds, which went from R$13 billion to R$21.2 billion [ph], which is a growth of total 60%, which is exactly the size of more value aggregated products that we offer.

Although we are stable in the third amount of (inaudible). And so this is exactly the same scenario that we are seeing in private equity and real estate funds. We are also gaining 60% or 70% in one year. So this shows the strength of our franchise and our ability to market more value added products.

Now changing to page 13, we have a wealth management where we reached R$90 million of revenue, which was in the last quarter of the year and explanation for that we get less client activity. This year we are also able to change the mutual products and (inaudible) with R$1 billion increase in this quarter and total assets from management reaching R$67.6 billion. I want to mention here, which also relates a little bit of quieter that we are streamlining a lot of these units.

So and although revenues were down in the last quarter, probably here it shows a very significant growth. And just as a matter of that we'll hear the contribution before (inaudible) we increased from last year around 80%. So the revenues were pretty much same in the quarter, it was a very significant improvement in the overall cost stability.

Turning to page 14, we have principal investments, and here the highlight is the revenue that we were ready to generate on global markets and this shows the rate before our ability to generate out and very significant amounts of returns when there are market conditions rather, well okay or that are beneficial for this type of activities. Another point, I would like to mention is that this is the first quarter or the only quarter of the year that all three areas local market, private equity and (inaudible) had a positive contribution investment. And this shows that reinforces, I would believe that we can generate very good result through our final year, although volatility can happen, it happens this year and the second quarter we had negative returns, but overall the year, we believe that three times we generate very interesting component rate.

Now we turn to expenses on page 16, we had the expenses for the quarter and for the year. Expenses basically salaries and benefits, which are more stable and pretty in lined from the fourth quarter to the third quarter, almost the same number. And to analyze our PPIs for the full year, we show a very stable business model in two different years of course 2012 and 2013, very different and much higher revenues in '12, but the PPIs are more legislative, we have (inaudible) this year compared to last year, which is normal kind of higher revenues in the current year and the comp ratio at 24% compared to 22% last year.

And this is we believe is a beauty of our models, where we can adapt to very different market conditions and they leave not only very good rate of returns, but also very stable and very consistent regarding these costs under control. Also to mention as Andre (inaudible) year very close to 200%, a 193 for this year.

Turning to our balance sheets on page 18. Here we see our balance cash and equivalents from R$184 billion to R$179 billion, which is due to a little bit less client activity for the period, which is normally (inaudible). Also we actually have very high impact with R$6.4 billion and a very conservative coverage ratio at 182%, which means that our credit portfolio is funded by R$52.2 billion of unsecured funding, which we show on page 19, how we achieve this unsecured funding of 52.2, mainly we grow the coverage that we fund ourselves. And this enables us to continue to grow, but continue to grow, we are funding at a very low cost, basically we are funding ourselves with leverage at the same levels, that we yielded to fund ourselves and that the fund these are basically half of that. This is a very big family and we're very optimistic that we can still low for a much larger number in this same model.

Finally, on page 20, we have our Basel ratio and value of risks. Basel ratio in the close of the year at 17.8% more or less a year, the level of the year throughout the year, which shows that we have a lot of room to grow without having it is very subtracted, also the risks stable at 0.53% per day, which is -- they're probably stable for the quarter however at a low level. We do believe that we have the capacity to increase that each day modification probably will be stable on that side.

I think this is it for the presentation. I think, we can start now for Q&A.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions) Our first question is from Mario Pierry, Deutsche Bank. Please go ahead.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi everybody, good afternoon. Let me ask you two questions, Andre, you mentioned that you're seeing still very challenging market conditions and at the same time looking your head counts have increased by about 25% over last year. When we look at salaries today they're representing close to 35% of the compensation versus 22% last year. So I'd like to hear from you is how comfortable do you feel about the size of the banks right now? I know you used to have a lot of flexibility over the bonus, but looking at how much salaries represents that their compensation, it is up at very high level, I think is the highest level at least by three years. So I'd like to hear your views. What's the size of the bank?

And the second question is related to the corporate lending. You showed that your loan book increased by about 11% in the quarter, but your revenues remained flat. You also mentioned that the asset quality remained stable, but on your press release you do talk about an increase in provisions and that's the reason why revenues didn't grow faster, as well as slightly lower spread. So, if you could give us more color on the asset quality. What is the overall level of NPL ratios in reserve coverage. Thank you.

A - Andre Santos Esteves {BIO 1939152 <GO>}

Okay, Mario. Thank you very much for the question. I will answer both sides. First on market conditions, I could broad say economic conditions, which not necessarily, I mean that we don't have the opportunity, right? Of course, if you have very weak stock markets that you don't have a number of IPOs, but doesn't mean that we cannot have the number of M&As.

So we observe for example on contract basis beyond that. So when we have the weak IPOs and have strong M&As and the opposite results would be. So markets will be weak, but the strength of our franchises they directly delivered the kind of return that we are guiding you by even in a relatively weak economic conditions. And that is exactly how we see this scenario for 2014.

Regarding salaries, overall compensation that is, two comments; one is that, we include in the beginning of the year, both the hand or franchise in our full numbers and these has a little bit of a small distortion given the fact that salaries are more representative then the bonus up in Colombia, at this stage, but that's one thing.

The other is, it was when we give this commodity investments that basically it's a cost investments that also has some impacts here in the 2013 numbers, because the first step is invest in people is the cost of salaries and then you have the revenues. We already have the good revenues in the fourth quarter, but overall create a little bit of an impact. But as a general guidance, we don't expect any structural change in our compensation, its scheme and structure. So what you should expect is probably an average between 2012 and 2013, and that is also an impact when you have a high returns and generally our salaries are less important part of your compensation. So the return on equity in 2012 was higher than 2013, so you have these effects. Importantly, I think this should be the most important in the tax play, I give you the full explanation, but the most important explanation is the last one mathematically speaking. So actually our delivery of above 20% return on equity, our things will be close to what we've delivered in terms of salaries and bonus in 2012.

And then equal explanations explained the number of people. So the last expansion, plus commodities are responsible for that. When you take Investment Bank for example, we are flattish year-over-year. So -- and that we also and you could expect that we manage our investment in terms of people in catwalk [ph] according to the opportunity. So we have a reasonable flexibility in our model before that and we will exercise that. So that I would say a good comment on your first question.

On the second question regarding credit, these provisions they are very marginal what Kalim said in terms of delinquencies valid for BTG Pactual portfolios, but also we'd say that is valid for the Brazil, Latin America overall credit exposure, delinquencies are lower. And since we are in the corporate sector, especially on the corporate sector, and as you know corporations in Brazil are relatively low leverage, even with weak economic performance, we don't see a significant delinquency. We had one specific case in 2013, (inaudible), but our overall performance of the corporate segment was pretty good.

And looking at our portfolio, we don't see any issue or any concentration that creates a cause of concern, it's the opposite. We moved to more rigorous instance of credit approval and market came into that direction in the fourth quarter and now we are growing again in conditions that we like. So we like the price of this spread that we're charging vis-a-vis the risk that we're taking. So we should expect a good performance on the corporate lending business for 2014 [ph]. So probably will be a good returns on low levels of delinquent and a modest growth, so that's what we expect.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Now very clear. If you can just give us an idea of how much you're planning on growing your credit books in 2014?

A - Andre Santos Esteves {BIO 1939152 <GO>}

Hey, Mario. Another I forgot that you asked about the increase on the corporate book and revenues. As Kalim said, I am just emphasizing that the growth was in the fourth quarter and most specifically closer to the end of the fourth quarter then the beginning, that's why you didn't see the impact in revenues. So you would see these impact in revenues in 2014. So starting from the first quarter of 2014.

And we expect growth of quarters depends on the economic conditions, but the growth in 2014 will be around 15% of the portfolio, that's our target. Of course it could be 20%, it will see good opportunity rates at 10%, if we don't see good opportunity or if we'd see further deterioration, we don't need to grow, so we manage according to our view of scenario. Remembering that we are already growing with very conservative economic assumptions. So probably things will not deteriorate further to our already conservative assumptions and in this case you should expect this around 15% growth in our corporate lending book.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. It's now very clear. Thank you very much.

A - Andre Santos Esteves {BIO 1939152 <GO>}

Okay. Thank you, Mario.

Operator

(Operator Instructions) Our next question is Gilberto Tonello from GBM. Please go ahead.

Q - Gilberto Tonello {BIO 18830533 <GO>}

Thanks for the opportunity. I would ask about your investments in Pan. Could you comment on how our conversations within the capital increase and if it happens how large could it be?

A - Andre Santos Esteves {BIO 1939152 <GO>}

Thank you, Gilberto. It sounds, as you know, we have conversations with our partner (inaudible) regarding a potential capital increase. Since these conversations are not concluded, I cannot be as specific here, but what happened in Pan [ph] is that operationally, we are fixing the play, so we are much more confident in our infrastructure controls the origination capabilities. The left of that should be fixed the capital structure. So, and when you look at the balance sheet, it's still weak balance sheet, because there are lot of tax issues and relatively compared something accurate. So what you need to do is to fix that structure. So it's natural that in a certain moment that you have a capital increase, but at this time the amount is still under discussion and I think whenever we conclude that of course we are now through the market, but we are optimists of what we can achieve with -- in the next 12 months, especially after fixing the capital structure.

Q - Gilberto Tonello {BIO 18830533 <GO>}

Okay, perfect.

Operator

(Operator Instructions) Having no questions that brings us to the end of the question-and-answer session. I will now return the floor to Mr. Andre Esteves for his closing remarks.

A - Andre Santos Esteves {BIO 1939152 <GO>}

Well, thank you again for your participation. I expect to see you in the next quarter results and thank you for being close towards us. Thank you.

Well, thank you again for your participation. I expect to see you in the next quarter results, and thank you for -- Thank you.

Operator

Thank you. This concludes today's presentation. You may disconnect your lines at this time and have a nice day.