

## Q4 2018 Earnings Call

### Company Participants

- Daniel Sonder, Chief Financial, Corporate & Investor Relations Officer
- Rogério de Araújo Santana, Investor Relations Managing Director

### MANAGEMENT DISCUSSION SECTION

#### Operator

Good afternoon, ladies and gentlemen, and welcome to the Audio Conference Call about the Earnings Results of B3 for the Fourth Quarter of 2018. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions to participate will be given at that time. 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 everyone and welcome to our fourth quarter 2018 earnings call for B3. I'm here with Rogério Santana, Head of Investor Relations as well as the Finance and Investor Relations teams. And I would like to thank all of them for preparing the documents you have in front of you, and all the materials you see in our website. Additionally, on behalf of the entire executive team of B3, I would like to thank you for your continued trust and support.

I'll start the presentation in slide number 3, where I'd like to highlight some important achievements and figures for 2018. The current level of interest rates in Brazil, and more importantly, their stability at low levels is unprecedented in the Brazilian market. This is already changing the portfolio allocation of investors. There are signs of increased market sophistication, which intensified in 2018.

Low rates allied with the reduction in the participation of government-owned banks as a source of funding for corporates in Brazil, should have a transformational and long-term impact in the Brazilian capital markets. The significant improvement in the business environment resulted in great figures in our markets. Examples are record of ADTV in cash equities and ADV in listed derivatives that benefited from our robust trading and clearing houses infrastructure, as well as double-digit volume growth in volumes registered in our Securities segment.

At the same time that we have prepared and executed well in supporting the market in this significant recovery, B3 also worked on several strategic long-term fronts. With the

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conclusion of the integration between BM&F, Bovespa, and Cetip, we concentrated our efforts on strengthening our corporate culture, focusing on customers, operating credibility, and our capacity to innovate.

B3 went through a broad and in-depth strategic planning exercise during the year 2018. Our strategy will focus on customers, services, and products in our core business, cash equities, derivatives, fixed income, as well as financing and data and analytics linked with these segments. We have a clear determination to keep and strengthen our competencies in operations and risk management, cutting-edge technology and innovation, customer relationship and service, engagements with regulators and development and retention of human talent. As a result, we have launched several projects and concrete actions that support our plan.

Additionally, a smaller portion of our efforts will be directed to the analysis of opportunities for selective diversification.

As a first deliverable of this strategy and corporate culture, in August 2018, B3 published a road map of products and services expected to be launched in 2018 and 2019. The execution of this road map will contribute to the continued development and sophistication, and these products were developed with our customers.

Additionally, the company started an important effort to improve our customer support services. A new way of doing customer support will be launched in the first half of 2019 with the purpose of enhancing our customers' day-to-day experience. Finally, in the financial area, we used our strong cash generation during 2018 to further reduce our level of indebtedness and distributed BRL 1.4 billion of cash to our shareholders.

We'll move now to slide 4, where we show the operating and financial highlights for the quarter. The fourth quarter was marked by increased activity in the financial markets in Brazil, reflecting their electoral cycle (00:05:08) and its consequences. In this context, we had a solid performance across our business segments. ADTV grew 55% in the Bovespa segment, ADV increased 16% in the BM&F segment, and the value outstanding of Cetip Securities segment increased by 12%.

On the right side of the slide, we see that this operating performance is reflected in our revenues, which grew by 27% year-over-year. Adjusted expenses reached BRL 272 million, 4% lower than in the fourth quarter of 2017, and I'll explain in more details later in the presentation.

EBITDA adjusted for non-recurring (sic) [recurring] (00:05:47) items was BRL 914 million, an increase of almost 36% over the previous year, with an EBITDA margin of more than 69% in the quarter. Once again, B3 has demonstrated our considerable operating leverage. Recurring (sic) [non-recurring] (00:06:01) net income reached BRL 715 million, a 12% increase, mainly explained by the increase in operating results.

On this slide, you can also see our operating and financial performance for full-year 2018. And we also delivered solid top line and bottom line growth for that period as well as

expense discipline. Now, Rogério will give you more details about our operating performance.

## Rogério de Araújo Santana

Thank you, Daniel. Hello everyone. I would like to ask you to move to slide 5, where you'll see the revenue performance and breakdown for the fourth quarter 2018. In the bar chart on your left side, we see that revenues from all four segments grew year-over-year, leading to a solid performance of more than 25% growth in total revenue. The main highlights were the Bovespa and BM&F segment that you can see on the left side of this chart.

In the pie chart on the right side, we see the breakdown of revenues for the quarter, which shows once again the highly diversified and well-balanced business model we have with Bovespa segment gained some share over the other segments due to its recent strong performance, as Daniel mentioned.

Moving to slide 6, you will find details on the performance of financial and commodity derivatives markets, where we had a 27.5% increase in revenue. As you can see, total volume increased it's more than 15% and amounted to BRL 3.7 million contracts per day on average in the quarter, explained by the increase in FX rates, equity-based index (00:07:52) and interest rate in U.S. dollar contracts. We also saw a significant growth in the average RPC in the periods explained by depreciation of the U.S. dollar against the Brazilian reais, which have positive impact on the RPC of the future contracts for FX rate and interest rate in U.S. dollar.

In slide 7, we have the performance of the equities markets, we've seen Bovespa segment. Where we also saw revenue growing 50% year-over-year, driven by a 55% increase in ADTV from BRL 10 billion in the fourth quarter 2017 to almost BRL 16 billion in the last quarter of 2018.

This performance reflects the increase of the volatility in the Brazilian capital markets in the quarter from the electoral periods as Daniel mentioned, which was translated in the increase after (00:08:58) from almost 78% in the last quarter of 2017 to more than 106% in the fourth quarter 2018.

In addition, the average market capitalization increased by 13% in the same period. The trading and post trading margin went down 3.2% in the fourth quarter 2018 versus the period of the previous year. Explained by the higher participation of day traders (00:09:30) and marginal discounts applied to all investors in accordance to our volume-related discount policy (00:09:39) that we designed for this segment.

Next in slide 8, we present the performance of the Cetip Securities segment. The additional value of securities and contracts registered in the quarter was up almost 30%, mainly driven by the increase of 33% in registration of OTC derivatives and structured notes. In addition to the increase of 24% in insurance of fixed income instruments, which positively impacted the outstanding positions which reaches an average BRL 7.4 trillion in

the quarter, which means a 12% increase over the last quarter of 2017. This performance led to an increase of 16% in revenues compared to the fourth quarter 2017 and amounted to BRL 314 million in the quarter.

In slide 9, we show revenues for the Cetip Liens and Loans segment which grew 32% in the period. When analyzing the different revenue lines in this segment, the increase of 17% in Liens revenues within FMG (00:11:02) line reflects the 7.2% increase in number of vehicles financed in the country. And also some adjustments done in our pricing schedule in the periods.

Regarding the Contracts System, the increase of 46% in revenues is explained by the implementation of a new model for these services in some states of Brazil. Such change in the business model positively impacted revenue line, but new revenue-linked expense is more than offset this impact as we have discussed it over the previous quarters.

It's also important to highlight that the company market share in the Contracts System contracted to 56% in the fourth quarter of 2018 from 65% in the same period one year before. This reduction is explained by the interruption of our services in the State of Paraná, which occurred in October 2018.

In the next slide, we show the company's adjusted expense and how we (00:12:12) in the periods. Adjusted expenses amounted to BRL 272 million in the fourth quarter 2018, which means 4% decrease year-over-year. The (00:12:29) happened in the adjusted personnel expense line, while we saw growth in data, processing and third-party services expense. This (00:12:39) reflecting fees paid to consulting companies hired to support those in strategic projects.

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

**Daniel Sonder** {BIO 18250247 <GO>}

Thank you, Rogério. In slide 11, we demonstrate our financial robustness with a solid cash position, which is an important part of the business of being a credible counterparty in the financial market. Total cash amounted to BRL 8.2 billion at the end of the quarter composed by B3's own cash and third-party cash, mainly related to collateral pledged in cash by clients. In the light blue bars, you'll find decrease own cash amounting to BRL 5.3 billion in fourth quarter 2018, which includes BRL 423 million in interest on capital that were already paid out in early January 2019.

The bars on the left side of the chart show third-party cash, which amounted to BRL 2.9 billion, mainly composed by market participants' cash collateral of BRL 2.1 billion. It's important to highlight that the company does earn interest on most of this cash balance.

In slide 12, you will see the company's debt profile and amortization schedule. After analyzing our financial strategy, we concluded that there was room to change our capital

structure and hopefully create value for our shareholders through that. As a result, we changed our guidance for financial leverage and payout for 2019.

Our financial leverage considering gross debt to recurring EBITDA was 1.2 times at the end of 2018, and our new target for the end of 2019 is to increase leverage up to 1.5 times gross debt to recurring EBITDA. We believe this change will not impact the overall perception of robustness of our balance sheet. At the same time, we increased our payout ratio target to a range between 120% and 150% of our IFRS net income compared to a ratio between 70% and 80% previously.

In slide 13, finally, you can see how we will present our revenue breakdown from first quarter 2019 onwards. This new segmentation grouped in listed OTC infrastructure for financing and technology data and services aims to reflect more accurately in the financial statements how B3 is conducting its business after the integration of BM&F, Bovespa and Cetip. The Investor Relations team is prepared - has prepared historical reconciliation of this data to help all of you in the transition and is obviously fully available to address any questions you might have.

And so, I'd like to conclude this presentation here and open up the Q&A session. Thank you.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session for investors and analysts. No questions. 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>}

Thank you everyone for participating, and feel free to reach out if you come up with questions later on. Goodbye.

### Operator

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

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