

Y 2019 Earnings Call

Company Participants

- Alexandre Riccio de Oliveira, Vice President of Technology, Operations & Finance Officer
- Helena Lopes Caldeira, IT Officer
- Joao Vitor N. Menin T. de Souza, Chief Executive Officer

Other Participants

- Gabriel da Nobrega, Analyst
- Marcel Campos, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Thank you for waiting. Welcome to Banco Inter's Conference Call to discuss the earnings of the fourth quarter of 2019. We have here today with us the CEO of Banco Inter, Mr. Joao Vitor Menin; and the Vice President, Alexandre Riccio De Oliveira; and IR Officer, Helena Caldeira. This event is being recorded and all participants will be in listen-in mode only throughout the presentation by Banco Inter. Then we will begin the Q&A session and more instructions will be provided. (Operator Instructions) This conference is being webcast live and it can be accessed through ri.bancoInter.com.br. A replay of this event will be available just after it's finished.

Webcast participants may register questions through Banco Inter's website and these will be answered after the conferences is over by Banco Inter's IR team. This conference is being translated into English to provide for the needs of our foreign investors. Before we proceed, I'd like to mention that forward-looking statements that may be made during this call regarding the Company's business prospects as well as projections, operating, and financial targets are based on the management's expectations and premises and also information that is currently available to Banco Inter. Future considerations are not an assurance of performance as they involve risks, uncertainties, and premises. They refer to future events and therefore depend on circumstances that may or may not occur.

I'd like now to give the floor to Mr. Joao Vitor Nazareth Menin, CEO, who will start the presentation. Mr. Joao Vitor, please over to you.

Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

FINAL

Good morning, everyone. It's a great pleasure to talk to our shareholders today, our employees, all stakeholders. This is our second earnings release in the year. We had other earnings releases. This is our second. We reported 2018, now we're reporting the entire 2019 results. This is also a very different call. It may seem nonsense, but it is important. We're doing this in our new headquarters. We started moving in December our 1,600 employees. We are now in six different -- now seven different sites. So, we brought our 1,600 new employees to the new headquarters in a record time and we're really happy to be here today. It's really great to see everyone in a more sustainable -- in more sustainable headquarters with more integration throughout and it's really cool to see everyone together here which will make our day-to-day more integrated, more dynamic. So, our shareholders are kindly invited to pay us a visit.

This conference call is more about our annual than our quarter release -- earnings release. As I said before, we're really happy to be reporting very good earnings from an economic and financial perspective and outstanding in structural terms. Banco Inter's project, which started in 2015-2016 with this great change in the Brazilian banking market, the first 100% digital bank. This for me is like running a marathon. As many people know, it requires a lot of dedication with long-term goals. We're not here just for the quarter earnings or the yearly results. Every mile that's run is important to us of course and we have the sense of accomplishment, a great satisfaction of using the right strategy and of the 1,600 employees, these people are passionate about our Company. They really dedicate fully, they're highly engaged and this of course because we have a very strong purpose.

There's another point. We're also reporting our sustainability report for the first time. As I said, we've been reporting economic and financial results that are good, operating results that are also great. And now our social and environmental results are also extremely interesting. When we consider that we are spending ten times less paper than traditional banks or less power than traditional banks, it really shows that we now have a new dynamic. We have new standards and this makes our asset more attractive. Now the highlights of this quarter -- of the last quarter of 2019. As we reported before, we have 4 million customers that's what we had. We're talking about account holders not customers alone. So, this was very important to us. We have exceeded what we had expected. We had expected 3.5 million and we reached 4 million. The profit was BRL82 million that was higher than last year so much better than expected and we reached a very important number BRL1 billion in revenue.

So Banco Inter is everything, but a startup and we had this revenue of BRL1 billion. And another important point, which was very important to us too. We wanted to reach 30% and some of you know that we -- our service revenue was what we wanted and we reached BRL30.3 million. We are not only a credit bank, but also a services bank so we can reach our customers in many different ways. Another very important point when we talk about account activation when people open payment accounts and deposits. Our demand deposits have grown again greatly over BRL2.1 billion time -- our demand deposits. Our Basel rates liquidity in we say this the demand deposits are important than time deposits because it shows how much our customers comply with us and are loyal to us. And why? Well, this is about being complete as we deliver well, we have great numbers. 425,000 active customers in our PAI investment platform even at the end of December.

FINAL

We started running the project and in 10 months, we achieved a great JOC. We never released this, but we have 120 people with shares and custody on our PAI investment platform. So, that's 8% of the investment market in 10 months. As I said, we have 16 billion, 17 billion and then we include DLM, which was approved in January; that's 20 billion JOC. So, we now have a good project -- a very good project in investment at Banco Inter. Operating efficiencies, we keep reducing the cost of service quarter-over-quarter. We have in addition increased the revenue for our customers -- revenue generated to our customers. So, the two combined -- these two elements combined lead to our point of inflection, which we always discuss. And then our efficiency rate has been reducing in four quarters in a row. Another highlight, which you may remember. I always mentioned this that we thought we had a cap in our costs and we had another quarter where we had surprising reductions.

So, the combination of demand deposits and people using our open platform to buy our CDBs, everything combined is -- has led to these great results. And something that the market demands on us is credit growth and this has also been great. We have exceeded BRL5 billion in our credit portfolio, 51% growth. That's a small nominal growth. But when you consider large banks, this growth of 51% shows that our underwriting is very good. We also know that this growth is not only in collateral products like credit cards, but also mortgage and payroll loans as well. So at the end of the year, we also launched our Super App. We invited our shareholders, investors, and partners do see this app being launched. This is just the beginning of our project. This Super App is -- means great change for the history of the Company. When we started in 2016, we were still in our infancy so we have been improving on this in the last four years and this led us to where we are.

Our Super App is now much better. It's not as primary as our checking account system. We're expecting a lot to happen in 2020. We have a great team leading the Super App. We have Rodrigo leading the team and we are convinced that Super App may have -- will have a great impact on our history. We won't just be a digital bank. We'll be a whole business idea. So, this was the end of 2019 with all these highlights and this is what I had to tell you about the dedication to our project, to our purposes. We want to keep working hard and at the end of 2020, we want to have great savings; savings of fees to our consumers, to our customers with very good -- very positive results. So, this was a great year for us, 2019. We really thank all our shareholders that are part and parcel of this success and the people of SoftBank who are also very important and then Ray Marcio, our Board member. So, we have a lot to do in this respect too.

I now turn it over to Alexandre, our CFO. And we can discuss more details in our Q&A session later. Thank you very much.

Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Good morning, everyone. Thank you. And I'd like to stress that we are really thankful for your participation in our best [ph] earnings release call for two years -- two entire years reporting as a public company. We see participants of many different segments; many stakeholders, analysts, investors, and people sometimes don't understand that we have sometimes a customer that also invests in us. Now our major business drivers so the increase of the number have customers' engagement, NII, credit revenue, service

FINAL

revenue, cost of surface, value generation. In terms of our client customer base, we have exceeded 4 million, which is much more than we expected. At the time of our IPO, we thought of less than 2 million clients at the end of 2019 and we have reached 4 million. And the major reasons for this 2.8 times growth year-over-year with a very well behaved CAC if you will.

So, we just have new clients. There was a slight increase in our operating CAC and this means that our customers have better usability in opening their accounts with geolocation and in this quarter, 100% of our customers now have a contactless card. Our customer base is still highly active. So, there is over 70% activation. Of all our benchmark activities, this is our global benchmark and we still see an increase in activation in the older customer groups. In terms of demand deposits, 237% was the increase. So with very good indications in the average balance per customer in 2018, when we look at the final balance at the end of the year it was about BRL710 per customer. Now at the end of 2019, BRL850 per customer. That's a very good increase especially considering the number -- the large number of customers we have and this has of course led to this decrease in our funding costs below 75% of the CDI.

Another important highlight in terms of engagement, 270% growth in our customer base in the PAI platform and this was proportional to the number of customers. So from 10% of customers that also invest. We should also stress what Joao said, almost 100,000 investors in home broker, 11% of the market. Finally, in terms of engagement, we have seen over 2 million logins daily, which is very good and consequence of our launches and how much our product has been enriched with Marketplace, with our Super App, and with increases in each version. Yesterday we uploaded our end-to-end version to iOS. That's again a very good development. In terms of revenues in services or service revenues, we have a greater base, 203 million against 99 million in the previous year. We reached our internal target of 30% in the services rate with total net services.

The PAI investment platform, when we had our call before, we expected an increase in the revenues and there was 300% in growth in the PAI revenues. Card revenue have also increased and insurance revenues growth of over 40%. With new products being added again, we did well. In terms of credit, 51% growth and our target was to reach 40% and we exceeded this rather comfortably. Should also highlight collateral credit has grown in our major strategy and non-performing loans 4.4% maintaining the pattern we had in 2018 or the standards. And then the NII that was this quarter 44% year-over-year with good net margin of 8.9%. In terms of cost of services, as calculated in operating expenses, we are still reaching what we wanted, in other words to reduce. And at BRL78 per client per year, 37% reduction year-over-year. So, this was important also to reduce our efficiency rate as was mentioned.

Finally, value generation. The net profit BRL24.7 million, BRL81.6 million throughout the year. Exceeding BRL1.1 billion in revenues for the first time, our revenue grew about 40% over the year. And we finished the year with a Basel rate of about 40%, which gives us good margin for growth. 2.2 is our shareholders' equity -- BRL2.2 million. And then our total assets for the first time exceeded BRL10 million. So thank you again, everyone, especially our 1,600 employees who have been delivering this and have been doing a great job for our customers.

And Helena, now over to you.

Helena Lopes Caldeira {BIO 20804655 <GO>}

Good morning, everyone, and thank you very much for participating in this earnings release call. I just wanted to reiterate what was highlighted, I'd also like to add that in 2019 was the first year that we had the first two M&A transactions, M&A and LMs. With the earnings of these transactions, we restructured our business development and M&A strategy is becoming more robust and also of course capturing the opportunities that we see ahead. We're working with a team, we're adding new people -- added to our teams and we have new opportunities to partnership and to leverage a project that we mentioned here before that the bank has a service. So, we can provide other companies with the possibility of offering our services as are able to the customers of these other companies. In other words, a B2B relationship and we will start our first project in this respect. We're really excited about this new front.

And was my message to you. Again thank you for participating. We will now open our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our Q&A session. (Operator Instructions) First question Gabriel da Nobrega, Citi.

Q - Gabriel da Nobrega {BIO 20868817 <GO>}

Hello, good morning, everyone. Thank you very much for taking my question. We've been growing strongly in credit cards. Now what is your sentiment about increasing risk and maybe offering new credit products as Rogerio mentioned? And I have another question later.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Gabriel, thank you for your questions. Well, this is something we repeat consistently. Our goal at Banco Inter in terms of credit is to include collateral products. Collateral may include your home, your salary, your investment, your paid rate in our Marketplace. So, this is the strategy [ph] for Banco Inter, we want to expand aggressively. In our credit card portfolio of course to offset losses for those who have no collateral to provide to charge 15%, 16%, which is the greatest enemy of Brazil Central Bank. Not really. So, what do we need to do to provide credit; BRL5 million, BRL10 million, BRL15 million, BRL20 million to provide credit more easily with more methods of collateralization. And this will be launched on our app very soon. We will have a field where investors or customers can increase their credit limit. So, it's in their hands to decide what kind of collateral they want to use in the Marketplace or their investment or their salary. So with one or two clicks, they can do this easily. So, we want to have more people and provide them with more credit, more loans with a low rate of loss. We don't want to offset losses with no income, no job

people. We want really to provide our clients with this and this is our philosophy in terms of credit in credit loan and credit cards or personal loans. Your second question?

Q - Gabriel da Nobrega {BIO 20868817 <GO>}

Thank you very much, Joao Vitor. It was very clear. My other question is about the services revenue, which grew considerably this quarter but then there were other things that happened this quarter like the launch of your Super App and then your Black Friday and Christmas promotions. So, I'd like to understand how recurrent you believe that these results may be in the next three quarters? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

As I was telling Rodrigo, the CEO of our Marketplace, of course we understand there will be seasonality in the third quarter, fourth quarter not only in terms of our Marketplace, but also our DPPF [ph] credit cards would lead to interchange was stronger this quarter. Will it be weaker in the first quarter? Well, it's expected to be weaker, but it may not. But I think this is not highly representative when we consider the whole and why am I saying this. Again this is the advantage of being a complete bank. If we just acquired products and depended on seasonality alone, we would have a much stronger impact on our business. If you just invest and you just change interest rates, again you just depend on that. So when you have a wide range of products and services, you can offset seasonality in your earnings. So once you have Black Fridays and the credit card is lower and then you have low interest rates. So, I think the beauty of having a more complete thorough platform that grows fast is what we have and that leads to more protection too for the seasonality movements.

Q - Gabriel da Nobrega {BIO 20868817 <GO>}

Thank you, Joao Vitor.

Operator

(Operator Instructions) The next question Marcel Campos, XP Investment.

Q - Marcel Campos {BIO 21008009 <GO>}

Good morning, Joao and Helena. Thank you for taking my question. I have a question about shopping. You had 34 million transactions in the last two months and this seemed a little different from what we expected. So, can you expand on this consider maybe the beginning of January and February and what we're doing to achieve these results? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Marcel, thank you for your questions. Well, January is within our expectations. To be honest, even a little below my expectations, I expected more. Now what I think is nice about this. What you should consider is that our current situation, what point or -- I don't know if you use iOS or Android. But last week we launched our new version for Android so this is like when you buy from -- with one click from Amazon. We launched the version to

Apple so it may be available to our users today and this is transformative. In other words, people in Brazil will have a banking app with a one click, they may buy a product. As I said last year, we finished the year by launching our Super App because I have extremely high expectations from it. In our road shows I discussed this. We can increase monetization and collateralization for more credit, more engagement, more recurrence, even more thorough experience; and this is really cool.

And we'll be launching two, four, three, four, 10 different versions of the app following the same philosophy, the same spirit as having a checking account and digital account in Banco Inter. Bringing or winning customers over considering the efficiency range that will be generated. Our technology team is very special, our product team is also very nice, and our marketing team does a great job too. So, we get support for that huge amount of data, 100% of everything we're doing isn't on our app. So I'm convinced that this DPV perspective with this focus on our Super App is a growing trend and like in Banco Inter, it's very dynamic. It's not just growth that is not dynamic. So, I'm really positive and I'm expecting very good results a lot of achievement throughout 2020 through our Super App.

Q - Marcel Campos {BIO 21008009 <GO>}

Very clear. Thank you.

Operator

The next question Philippe Gregoire, (inaudible).

Q - Unidentified Participant

Some competitors are fighting against international in dollars. How do you see this trend? Do you want to do something along similar lines?

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Thank you for this question. Again as we consider the thoroughness or how complete our solution is, I think we can relate this to another issue which is internationalization. So competitors, how do we see our competitors? Well, Banco Inter's strategy is slightly different. Of course there's a value in providing an account in a different currency of course. That's a very interesting market. We also believe that the way that this can be done -- well, we think along more comprehensive lines, more open lines. In other words, we will offer a global account in dollars as soon as we have the right conditions. In other words, a robust structure that is very thorough, that's regulated in another country, for instance in United States. So as soon as we get this we may, we will have an account like we have in Brazil. So, our global account has to be complete checking account that's very robust, properly regulated, highly compliant. This is how we see this product -- a product such as this. It will only happen if we can meet all these conditions otherwise we won't offer it.

Operator

(Operator Instructions) So, this is the end of our Q&A session. I'd now like to turn it over to Joao Vitor Menin for his final remarks.

A - Joao Vitor N. Menin T. de Souza {BIO 21561597 <GO>}

Thank you again for your question. Thank you for participating in this call. So, we are at your disposal for any further questions. We know the agenda of our analysts are very busy. The capital market has been heating up in Brazil like we haven't seen in many years. So, really happy about answering further questions, passing that on to analysts and also individuals. Thank you, everyone, again. See you in three months' time. Have a great day.

Operator

Banco Inter's conference call is over. Thank you very much for participating. Have a nice day. Thank you for using Chorus Call.

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

FINAL

Bloomberg Transcript