

Q1 2021 Earnings Call

Company Participants

- Daniel Sonder, Chief Financial Officer
- Marcela Bretas, Investor Relations

Other Participants

- Analyst
- Ian White
- Mariana Taddeo
- Otavio Tanganelli
- Tito Labarta

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Audio Conference Call of B3 Earnings Results for the First Quarter of 2021. 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. (Operator Instructions) As a reminder, this conference is being recorded broadcast live via webcast. The replay will be available after the event is conclude.

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

Daniel Sonder {BIO 18250247 <GO>}

Hello, good morning to all. Hope everyone is healthy and safe. I'm here with the Investor Relations team of B3 as well as finance team and I just wanted to first thank them for putting together all the materials for the earnings release together with the communications team. I'm going to make some very brief remarks at the outset myself and Marcela Bretas, who's our Managing Director for Investor Relations and then we will take your questions.

I just wanted to open by highlighting that we had an exceptional first quarter for the 2021, we had our revenues up by 25% versus last year and our EBITDA up by 24% in the same period. We have had a very good environment for the development of our business steepening and strengthening of the capital markets in Brazil. We have seen strong capital markets activity in the first quarter of 15 IPOs and 7 follow-ons. And we've also moved forward in our product launches and new initiatives in the company. We have

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focused on operational resilience, we have focused on clients centricity. We have witnessed a large increase in the number of individual trading equities in Brazil and a very strong brokerage sector -- retail brokerage sector around our ecosystem, which is obviously very positive for B3.

And we have again moved with the strategic objective of strengthening our core business as well as adding new products and services to our platform and investing in some new initiatives. We announced recently also a succession process in our senior management team, we're very happy to have the talent bread inside B3 to be able to make a consistent and planned transition from the leadership of Cicero, who's been a very, very valued member of our team for over 20 years. And I think the company is in a very strong position moving forward.

And finally, I just want to make a note before turning over to Marcela to detail some of the numbers regarding the health and social situation in Brazil, which due to the pandemic continues to be very serious. B3 has taken a proactive approach towards that scenario by making donations through a non-profit. And we have done that and repay that in 2020 we were hoping that work was not going to be fair again in 2021. But regrettably that's not the case. So we've continued to make such charitable donations and hope to have a somewhat of an impact in the fab, health and social emergency that is still around us.

So with that I'll turn it over to Marcela, and she can detail some of the numbers and I'll take your questions afterwards. Thank you.

Marcela Bretas

Thank you, Daniel. Good morning, everyone. Hope everyone is well and safe at this time. As Daniel mentioned, we had a very strong quarter driven by volumes in our platforms across all businesses. Overall revenues grew 25% year-on-year reaching BRL2.6 billion in the quarter. Adjusted expenses raised 6.5% year-on-year reaching BRL292 million in the quarter. With that EBITDA was BRL1.9 billion which is 24% increase over last year's numbers.

As I mentioned, we had revenue growth across all of our businesses for diluted equity segment I will also like to highlight that the implemented the new intermediary pricing model is -- it was announced in December last year. So starting February, we had this new pricing schedule in place that substitutes the previous schedule that we had which was done with counts given by level of ADTV reached by the whole market.

With that, I believe that equity segment revenue was BRL1.3 billion in the quarter, which was 20% up year-on-year. Listed our fixed income and derivatives segment which BRL625 million in revenues and it was up 38% over first quarter of 2020 driven mostly by increasing RPC. The OTC segment had revenues of BRL270 million which was -- represent a 10% increase versus first quarter 2020 result.

And finally infrastructure for financing had revenues of BRL122 million at 17% increase versus last year. As I mentioned adjusted expenses reached BRL292 million most of the

increase was driven by adjusted personnel expenses which was infected by the annual salary adjustments plus some new hires that we had a decrease and data processing expenses which were 14% up year-on-year. B3 ended the quarter with BRL7 billion in growth debt, we just announced through a material fact that will be raising an additional BRL3 billion in debentures. And we also distributed BRL100 million to our shareholders in the form of IOC, dividend and share buybacks.

With that, I end here, and I open up for questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from (inaudible), Itau BBA.

Q - Analyst

Good morning, everyone. Thanks for taking my questions. In this just quarter, we saw a very tight expense control with sequestering improvement in data processing, third-parties and even personal. My question -- my first question is it reasonable to assume that this control will be maintained in the next quarters? And if yes, would it motivate any changes in the company's guidance for expenses for the full year? And my second question is regarding M&A opportunities. We saw the issuance of the debenture of BRL3 billion being outside yesterday, of course you do optimizes the capital structure of the company, but it also puts the company in a good position to capture some M&A opportunities. Does it make sense to think in this way and if so, what would be the focus of a potentially income [ph]? Thanks.

A - Daniel Sonder {BIO 18250247 <GO>}

Great questions, thank you very much. So we have not changed our expense guidance for the year. We continued to be committed to the range that we have announced to the market. It is not unusual for us, that the fourth quarter has slightly higher expenses than the rest of the year. So, the sequential decrease in expenses is, I would say mostly due to atypical fourth quarter, rather than anything, let's say more structural that we're doing in the company. We have, I think, over the year established a big culture in the company of tight expense management, which obviously we are happy about. But we will continue to make the investments in the areas necessary to support the growth of our business, to improve client relationships and to move forward our product development agenda. So no, let's say, no news on the expense guidance up to this point and we don't foresee and say any deep changes in that going forward.

With respect to the financing opportunity or the financing -- debt financing -- that we announced yesterday, this is consistent with our wish to have an efficient capital structure and we felt that at the end of the year, we finished a little bit lower than we had expected

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and that came for good reason, because actually EBITDA cash generation came in stronger than we had planned. And so the board encouraged us to continue in this trajectory of raising debt and raising our cash position and making that cash available to our shareholders.

Our M&A strategy does continue, but it's frankly not tied to this particular debt issuances these debentures that we have mentioned in the market. These are separate matters. We do have the liquidity at hand to make the types of M&A transactions that we are looking at, those are small, relative small deals in the adjacencies of our business that plug-in add-on that put us in the right places in the market, close to our clients in a position to add value to their businesses. So yes, M&A continues. And we're looking at a two things, but those are not necessarily dependent on this money that we're raising now.

Q - Analyst

Okay. Very clear. Thank you very much, Sonder.

Operator

Our next question comes from Otavio Tanganelli, Bradesco BBI.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Hi, Sonder, Marcela, and congrats on the results in the first place. I wanted to ask about the new price table implementation and this has been in place since February. And on a sequential basis that the trading margins have declined only 2% per our calculation. So what if to get a review on what should be the run rate of the further decline that we may our can expect in the coming quarters? And if you could also update us on the process after the brokers implementing the new price tables, and your expectations of when could this be at the run rate of the new full implementation? Thank you.

A - Marcela Bretas

Hi, Otavio, nice to talk to you. So as you pointed out correctly we had the new pricing table implemented in February. So, we had two months out of three for the first quarter with the new pricing scheme in place. We saw when we compare year-on-year up 7% decline in margin and also a 16% decline in our depository revenue that was mostly driven by these implementation of the new pricing scheme, which provides clients, first of all with this, that are discounts and lower prices to the trading and post rating services of B3, and with deeper discounts for day traders.

And on the depository side (inaudible) investors who have up to BRL20,000 in custody from custody fees, and our investors that have up to 300,000 in balance the fee that they see is now lower than before. You are correct, when you compare quarter-on-quarter which leads to a lower delta in terms of ADTV which are smaller decline, but again it's not -- we didn't have the full quarter yet in effect in this first quarter for the new pricing table. And again year-on-year we saw this 7% discount. I think the back test that we announced back in 2000 -- and in the early days of 2020 and when also we announced the new

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pricing table, these intermediary model need to defend the last year. Should still be your reference in terms of discounts and what to expect going forward.

We continue to work towards the implementation of the full pricing table as we said we would. But we don't have a clear timetable in place as of now, because as the implementation of other steps towards the full model depend on market readiness. So we are -- it's not fully under our control. Our wish is to implement it as soon as possible, we would like to do that in 2021 still. But again, it's not fully under our control when we will be able to do that.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Very clear, Marcela. Thank you so much.

Operator

Our next question comes from Ian White, Autonomous Research.

Q - Ian White {BIO 15068031 <GO>}

Hi, morning everyone. Thank you for the presentation and for taking my questions. I had a few details questions, please. First of all, I was interested, if you might be able to say a bit more about what you're seeing in the data analytics revenue line performance there was pretty strong versus 4Q '20. And I just came to understand if this is basically a subscription-based level from which you'd expect to grow are other someone off items in there in the first quarter? And maybe you could give us a sense of the types of products where you're seeing better traction in that business, please? That's question one.

Secondly, I wanted to if anything you might be able to update us on regarding the progress towards launching a credit card receivables registration offering later this year, which I think was something that you mentioned with the last update of full-year results. Is that still expect you to proceed later this year, and what are the remaining hurdles to clear for that please? That's question too.

Lastly, wondered if you could provide any extra detail in terms of recent trends on retail derivatives trading. I think you disclosed just over 200,000 active traders in the mini lbov [ph] contract back in October. I wondered, if you'd be able to share either the number of active traders that they were in that contract at the end of the first quarter or if you can kind of give us a sense, if you're still seeing very strong growth in the user account there please? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Hi Ian. This is Daniel. Thanks for joining the call, and thanks for your great questions as always. So I'll take the first one and then maybe Marcela will take the next two. On the data and analytics side, we have been working on that area and seeking to launch new products. But the change that you saw from last year in the revenue is actually mostly driven by FX. So we charge our international clients such as Bloomberg and Reuters

dollars for market data and obviously the currency moved significantly in Brazil from the first quarter.

So that was the main driver there, but that's not to say, that we're not investing in pushing more products and trying to, let's say, educate the market on the opportunities for using some of our pricing and data services.

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Q - Ian White {BIO 15068031 <GO>}

Thanks, Daniel. If I could just jump in there please. I'm kind of interested really in the sort of sequential jump that you had from 4Q '20 to 1Q '21. I didn't think FX would be kind of a major driver that, FX moves were more modest kind of relative to the fourth quarter last year, but you're still posting kind of pretty healthy double-digit revenue growth versus 4Q '20. It sounds (inaudible) but there's nothing to me necessarily be aware of there, but just to make totally clear out of what I'm thinking of.

A - Daniel Sonder {BIO 18250247 <GO>}

Okay. So let me get into that, I don't have that of the top of my head. It might be also related with subscriptions for new funds that are part of our -- that are part of that line. So we charge let's say access to our platforms for fund managers whereby they pay a subscription fee and then they have let's say the opportunity to use a bundle of services and fund industry has grown in Brazil with the number of funds expanding. So I will -- I think that's what's connected to that that. So I will make sure that I have the detailed information and then reach out to you.

Q - Ian White {BIO 15068031 <GO>}

Thanks. Appreciate that, Daniel. Thank you.

A - Marcela Bretas

Regarding the receivables platform Ian, you're correct. We had some delays on the regulatory framework that is necessary parts to start offering the service. We plan to launch a platform in the second half of the year. We are working to update our systems and adapt them to offer this service and we are also making some partnerships in order to provide the services that we currently don't have in-house. So hopefully, we'll be able to launch it in the third quarter (inaudible) goes according to plan.

On the number of individual investors for many contracts for the mini index contracts, we have more recently around 218,000 investors, back in December these number was 184,000. For the mini dollar contract that we have also the IoC solution, we currently have a 137,000 individual investors and back in December, it was a 126,000.

Q - Ian White {BIO 15068031 <GO>}

Thanks very much for those figures. Can I just check that I heard the first one correctly about 218 -- 218,000 investors in mini indices versus a 185,000 I think it was at the end of the year that you said?

A - Marcela Bretas

Correct. And all of them are active in (inaudible) which who has made at least one trade during the quarter.

Q - Ian White {BIO 15068031 <GO>}

Super. Thank you very much, very helpful.

Operator

Our next question comes from Mariana Taddeo, UBS.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Hi, hello, everyone. My question is related to the sale of the state in Bolsa in Mexico announced the last month. One of the rationale for this sale and while there any impact in this first quarter results or it will be fully accounted next quarter? Can also give us a sense on what could be the impact in terms of capital gains and also have states in other LatAm exchanges, we also plan to sell the stakes? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Yes, Mariana, thank you for the question. We have made these investments over the last several years. So, we basically did investments in 2016 at a very different time in our strategy, planning and the idea has always been that through these investments, we would try to strengthen our relationship with these exchanges and discuss a product agenda that might allow us to do things together in our markets. And that having those equity stakes would let's say, strengthen these relationship give us access to the board and to strategic decision-making in these companies.

We -- then with frequency or -- frequency where I mean, we have let's say periodically evaluated the merits of these relationships and in the case of Mexico, we felt together with the Mexican exchange that the ownership stake would not let's say, be a necessary condition for us to continue to have a dialog with them. So we remain friends. And we remain, let's say thinking partners in terms of potential opportunities. But the -- we didn't have a board seat and we felt that we could divest from the Mexican exchange without let's say, any major impact on what we might be able to do in the future.

Likewise, and we did it gradually, so we didn't make a one-off sale, we sold it gradually over several months. So the impacts of this is mostly accounted for in our numbers already, okay. And they were now -- this is not the material number, but we can detail if you need additional information from what's in the financial statements we can get into that for you. And the -- with respect to the other exchanges, we have a close relationship with the three exchanges where we continue to have investments which are Peru, Colombia, and Chile, we have an associate of ours that is a board member, that is a former colleague of ours team and we continue to explore opportunities with those exchanges. In Mexico, we didn't have a board seat in those other companies we do. So we will continue to be close to them and hopefully be able to materialize on some of the

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opportunities in the future. And, do the same thing that we have done over the last two years, which is periodically evaluate whether that's still a good plan.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Thank you. That's clear Sonder.

Operator

Our next question comes from Tito Labarta, Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, Daniel, Marcela thank you for the call and taking my question. My question is on your EBITDA margin. I know, you don't necessarily guide for any market, but just want to see how you think about your current margin historically high levels very good evolving, this is be very strong, have a lot of operating leverage. Do you think this double is sustainable or in other words, do you think in a position to maybe give more discounts also with the competitive environment that we would been much news on the competitive environment lately. You think this could be the one attract competition sooner or even in media regulator wanting to open up the market. You just want to put the margins into context and how you think about it would be helpful? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Sure, I think the margin and I know it's a relevant item for you to try to let's say project the performance of the business. But it's not really something that we drive our decisions by frankly speaking. We have made a strategic decision to reduce our fees. We are in the process of implementing that, I think, this is something that we are not changing directions on. And this is the result of the, let's say, the trust and the relationship that we've developed with our clients, which has allowed us to see larger volumes going through our platform.

And we completely understand that the direction that the company should go is generally speaking lowering our fees. We don't do that in this ruminatively, we try to be selective, we try to be meticulous and careful about it. Trying to address specific points that are either a pain and a complain to our clients or where we see an opportunity to drive additional volume. So where there is really price sensitivity in terms of seeing additional business coming through when we lower our fees. We will continue to do that and we'll continue also to invest in projects and initiatives that that's for our growth, and our -- this business has high margins in most places. It is a business where you have to invest in a significant capital in technology and in human resources and talents and let's say building up your hard capital in terms of IT, but also your soft capital in terms of systems and products and so forth.

And then over time you see lots of volumes going through when the markets are fine and when the markets retract and this might eventually happen as it has in the past. Then it's also a business that has not a lot of flexibility to reduce expenses and you might see margins contract. This is -- we're happy that hasn't been the case in Brazil over the last few

years, but you and I were around when markets were less positive in 2014 and '15 and '16 and frankly our margins were suffering there.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. That's helpful, Daniel. Thank you. And just anything on the competitive front, I mean seems to be there was lot more noise last year around it. But have you heard anything about people entering the market? How do you think about the competitive landscape?

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. I think you have competition is definitely a reality and a part of the daily conversations that we have here in the -- in B3. We are very aware of the fact that the market is becoming more and more attractive for more a number of opportunities around us. And we don't expect that someone would try to start a full exchange with all the equity derivatives and fixed income and all the services that we do. But rather that competition will come, business by business from small initiatives around us. If you -- and if you look at the listing business, we're very happy that more and more companies have chosen to live in Brazil. Although, here and there, there are exceptions to that.

In the derivative business, obviously, clients can trade Brazilian underlying assets away from B3 and OTC platforms abroad and even some exchanges abroad. But again we've been able to maintain most of the business, and the liquidity both for local and international investors in the listed and the OTC derivatives. We -- obviously there is competition in registration. There's a few small companies that have niche players that have sought in Brazil to enter that. And I think again, the changes that we have made both in pricing and in customer service I think have been recognized by the market and we continue to maintain close to food dominance although again these guys are there and we have to on a day-to-day face that competition as well.

And finally in listing in the listed equities market in the past in order were conversations in the market about people launching other equities exchanges. I think that we haven't heard about for quite some time. But there are other ways of competing with us, as there is a regulatory discussion about market fragmentation and whether more transactions could be done off-exchange within the platform's of brokers such as in some other markets we have obviously try to point out to the market and to regulators, the some of the disadvantages of that and then to try to have a balanced discussion and also introduced new features in our own system such as the retail liquidity provider, which have tried to incorporate within B3s strategies some of the new ideas and innovations that the retail brokers want to pursue.

So competition is a part of running this company, be aware of what's around us and I think it's a motivation for us to keep investing and to keep meeting exactly what our clients want and also just linking to your first question, it's all obviously, something that is connected with our view of reducing fees over time.

Q - Tito Labarta {BIO 20837559 <GO>}

Very clear. Thank you, 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>}

Sure. Thanks everyone for joining the call and please feel free to reach out to us if you need anything else. And again, thanks to all the Investor Relations, Communications and Finance teams for their hard work this quarter.

A - Marcela Bretas

Thanks everyone. Investor Relations teams is available, if you have any other questions. Have a nice day.

Operator

That does concludes B3's audio conference call for today. Thank you very much for much for your participation, have a good afternoon, and thank you for using Chorus Call.

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