Y 2021 Earnings Call

Company Participants

- Daniel Sonder, Chief financial Officer
- Marcela Bretas, Managing Director of Strategy, M&A, Investor Relations

Other Participants

- Ian White, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Ladies and gentlemen, good morning, and welcome to the Audio Conference Call of B3's Earnings Results for the Fourth 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 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>}

Good morning, everyone. I want to thank all the analysts for joining this conversation. It's a pleasure to speak to you again about our fourth quarter 2021 results. I have here with me Marcela Bretas, Managing Director of Strategy, M&A, Investor Relations and also other colleagues, and we are also happy to introduce during this call Andre Milanez, who is going to be my successor at B3 as I bid my farewell to you guys at the end of April. So I just wanted to open by giving a few remarks and then Marcela will also make a few highlights about our fourth quarter 2021 results and then we'll open for Q&A.

We had a fourth quarter that was marked by continuous volatility in global markets. We had inflationary scenario and also uncertainties regarding Omicron variable for coronavirus and this led obviously to uncertainty and volatility in a lot of markets, including Brazil. In Brazil, we also had a spike in inflation and a hike in interest rates by the Central Bank to try to mitigate that risk. And yet for B3, we had a fairly strong quarter and we were able to maintain the robustness of volumes in most of our markets and client activity was very solid.

We also moved forward in our strategy and we had the opportunity at the end of last year during our Investor Day, B3 Day, to outline the vision for the next few years for the Company, which is of a balanced combination of a number of innovative initiatives, both in the core business, as well as in our ventures beyond the core. And this is what we have been doing and will continue to execute during the next few years and the highlights in that for the first -- fourth quarter of 2021 are as follows.

In the core business, we launched more than 15 of a new financial instrument called Fiagro, which are financial investments funds for the Agro business. We also have a new Soy Futures contract which was developed in partnership with the Chicago Mercantile Exchange, and we also began trading Futures contracts for Euro Stoxx 50 and the DAX. And in the OTC segment, we began trading or dealing and depositing these new commercial notes. We also launched in the beginning of this year, our receivables -- credit card receivables platform, which in our view is a promising business, where we obviously will face some players that are already established, but we think the opportunity is very big and very much aligned with the core strengths that which we can offer to a number of clients.

And finally, when we look at our strategies to expand beyond the core, we concluded at -- in the last quarter of 2021, our acquisition of 100% of Neoway after shareholder approval and as well as regulatory approvals. And Neoway is a big part of the strategy of B3 to be a strong player in the data and analytics segment. It opens us up to a host of new industries and types of clients. But more importantly perhaps, it brings to our Company a very talented team of people that will help us explore and maximize the potential of existing data assets within the B3 ecosystem. So we are very happy with that acquisition and now we are moving forward with the discussions about product pipeline.

So now I'll turn to Marcela, and she can discuss a little bit more the results for the quarter.

Marcela Bretas {BIO 21760051 <GO>}

Thank you, Daniel. Good morning, everyone. So in the fourth quarter of 2021, B3 reached total revenues of BRL2.4 billion, which is a 4% decrease versus the fourth quarter of 2020, which is explained mostly by a reversal that occurred in the fourth quarter of 2020, which positively impacted revenues of that time. Without considering this impact, revenues would have been in line with last years. EBITDA reached BRL1.7 billion, 4% lower than what we had last year on the back of slightly higher expenses.

Expenses -- adjusted expenses grew 13% for the year, driven by first, higher personnel exchanges, -- sorry higher personnel charges explained by the full inflation adjustment of salaries that happened during the third quarter. So it's fully reflected in the fourth quarter of last year and also new hires for the new projects that we have in-house. Data and processing expenses also grew on the back of the acceleration of new projects that we are developing. And finally, we had an increase in other expenses, driven by provisions for legal fees referring to new lawsuits that were opened during the period and also the write-off of some discontinued projects such as the peaks project.

The operational highlights, we continue to show very strong numbers for our ADTV which reached BRL31.5 billion in the fourth quarter of 2021, and it was 14% higher than what we had in the previous year. Number of IPOs for the quarter was, 1 IPO and 2 follow-on offers totaling BRL3.6 billion. For 2021 as a whole, we had a record year with 46 IPOs and 26 follow-on offers raising more than BRL130 billion. In the derivative segment, we had an ADV of 4.3 million contracts in line with what we had in the fourth quarter of 2020. In our OTC segment, we saw volumes rise almost 9% as a reflection of higher activity in fixed income as interest rates continue to rise. Finally, in our Infrastructure for Financing segment, volumes were down almost 13%, reflecting higher interest rates and higher macroeconomic uncertainty.

I'd like now to open up for questions, if you'd like.

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 Ian White, Autonomous Research.

Q - Ian White {BIO 15068031 <GO>}

Hi. Good morning, everyone. Thanks for doing the presentation. Few questions from my side, please. First of all on the -- on the cash equity yield, I think the exit rate for your statement was, it looks like it was close to 3.3 basis points, is that the sort of level we should be thinking about in 2022, or is there still more of an impact from the price reductions that we should expect to see come through next year, please? That's question one.

Question two. I just wanted to check, has there been any change to your view on the Central Bank FX litigation, the wording in the financials seems to me to indicate a stronger expectation of a favorable offset that you could receive from underlying Central Bank cash FX gains and maybe tax effect. I just wanted to check, if there is any change there, please?

And finally, just how should we think about net finance income for 2022 and perhaps '23, please? I'm assuming there's an interest rate tailwind helping the positive contribution in 4Q. Just wanted to check whether we should expect to see similar positive contributions there going forward, please. Thanks very much.

A - Marcela Bretas {BIO 21760051 <GO>}

Good morning, Ian. This is Marcela here. I'll tackle your first question. So regarding the average price for our equity segment, we have implemented in February last year what we call the intermediary model, which provides additional client -- additional discounts to clients according to volumes. So this number is fully reflecting this new intermediary model which, just as a reminder, represents about 70% -- delivers about 70% of the savings that we were intending to give back to the market as discounts with the full model, that we still plan to implement at some point, but we have no exact timing for that. So we think that this should be a level that should be continuing going forward, of course, this could vary slightly depending on volumes and also client mix, since we have different pricing for different groups of clients, but this is a sustainable level going forward.

A - Daniel Sonder {BIO 18250247 <GO>}

Ian, let me take your two other points. So first on the contingency, you are very sharp reader of our financial notes and thank you for that. I'm afraid, there was a incorrect translation and where it says eventually it should say possibly, that's a common mistake when translated from Portuguese to English and we should have looked at it, but there is no change in our expectation for that -- for that case. And there is a possibility, but not a certainty that some of the values may be netted off and cancel each other out at the end of this, but it's still exactly the same as we had said before, and I apologize for this slight mistake. In the Portuguese version, it reads property.

On the -- on the financial income side. So we, what we did last year is, we ended the year with a slightly higher debt balance and cash balance. Because we pre-financed some of our maturities that are coming due this year. So we do plan for the rest of the year to use some of that cash to probably pay down these liabilities, of course, it will depend on market conditions. We -- if market conditions are very good, we may exercise the flexibility of having additional liquidity on our books. But -- but we shouldn't see a significant change in financial income for the year. So we will continue to benefit, if you will, from the higher interest rate environment and holding a pretty high cash balance. We also have, as you probably know, we have a relevant amount of third-party cash that we carry on our balance sheet on behalf of investors that need collateral here in cash. It's not a big portion of our total collateral pool, but it's a still a sizable amount of money. And on that, we also receive interest income and that obviously is slightly better when interest rates are high.

Q - Ian White {BIO 15068031 <GO>}

That's super, very clear. Thanks for the help. I just wanted to finish up by saying a quick congratulations to you, Daniel on a very successful tenure at B3. Thanks for all your help and all the best for your next role.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you, Ian. I appreciate it and you're going to be in (inaudible) hands with my colleagues here. So, thank you.

Operator

(Operator Instructions)

A - Daniel Sonder {BIO 18250247 <GO>}

I think we have some questions from the -- from the web, so just hold on one second, guys.

Operator

Our next question comes from Tito Labarta, Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning, Daniel and Marcela. Thanks for the call and taking my question also. A couple of questions, one, maybe on your EBITDA margin, I know you don't give guidance on your margin, but we're still kind of down to 75%, have been closer to 80% given the guidance you've given on expenses. Do you think that the 75% is maybe more of a normalized level, do you see an environment where you can get back to that 80%, just to kind of how we could think about that margin from here?

And then my second question on the velocity. I know it's a difficult question to answer, but improved a bit in the quarter. I mean, just given the current environment from geopolitical, politics in Brazil, rising rates, how do you think about the velocity trends from here? Does it get normalized eventually back to the 100%, does it stay around this 150% level, just curious your thoughts on it, and I know it's difficult to give guidance on it. But, thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Sure. Thank you, Tito. We -- I think I'll start with the second one. And we've been pleasantly surprised with the resilience of turnover velocity in our business. I think when we looked at this time around last year, coming out of a very, very strong 2020, I think everyone was thinking that there was reason to believe that turnover was going to go down in a more normal year, if that is ever the case again in 2021. But it didn't and it continues to be to be very strong. I think if we look across other exchanges globally also, turnover has changed and -- and I think maybe trading patterns and so on.

We are obviously also the beneficiaries here in Brazil of huge increase in retail and -- and also renewed interest by high frequency traders and professional trading firms to operate in Brazil. So I don't want to promise that turnover is going to stay as it is, but the reasons that we looked at in the past that we say, oh, maybe 2020 was completely unusual and off the chart, 2021 also did very well. So I'm not sure it's what would be the triggers for it to go down, except, if we have a change in the expectations regarding interest rates in Brazil.

I think the general sentiment here around interest rates is that we're going to have a period of high double-digit interest rates, and allow the Central Bank is controlling inflation and if that works, in a few months, maybe a year from now, we're going to be already back in a trajectory of lower interest rates and that is a temporary hike that should not derail the development and -- and the deepening of the capital markets, which is very important for B3. If that scenario is different than that, then obviously we would be at more risk of seeing a reduction in turnover.

The -- regarding your first question on margins, as I think you highlighted yourself, we don't plan the Company for a certain margin. We don't budget for that, and we basically try to manage our expenses in a disciplined way that both, pushes the Company and the management team and the colleagues here to find efficiencies and run the business as productively as we can. But also gives enough flexibility for us to fund our growth initiatives and our future developing businesses, which may not turn revenues immediately and I think we try to break that down a little bit better as we changed our guidance model in the end of 2021, looking forward towards 2022.

So we do that and then we also try to push new products and -- and deal with market activity as it comes. So, like my answer to you is, our margin will be dependent on how intense market activity is for the year. We started I think the year relatively well. We had BRL32.7 billion of ADTV in February, we had a little bit less than that, BRL30.5 billion in January. So I think we're looking at a nice beginning of the year and that even with almost no capital markets activity. So very -- still very slow IPO market.

And this year in Brazil will be very dependent on election scenario and the political conversation. Although our base case is that, once we have a little bit more clarity, in either case, whether it's -- it's a candidate that is the current President or someone from the opposition, as it becomes more clear and the message becomes more clear about their policy, we should start to see the market re-establish it's activity, including in the IPO and follow-on markets. So let's see, we think our margins are strong and we have a lot of hope that it will continue to do well as volumes are sustained here.

Q - Tito Labarta {BIO 20837559 <GO>}

Thank you, Daniel. Very helpful. Also I called out, congratulations on the tenure you had as CFO and best of luck and hope to be in touch in the future as well.

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you. Let's stay in touch. Thank you.

Operator

Our next question comes from webcast. Isabelle Irish with Barings. Please, could you explain more about the salary pressures, particularly in relations to the collective bargaining agreement? Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

So, if I understood correctly and maybe Marcela can help me out here. We -- the Company is part of the Brazilian workplace environment where -- where we are subject to collective bargaining agreements, and usually those seek to basically include inflation on a yearly basis on to the base salaries of our -- of our employees. So every August, we look back at 12 months inflation and we basically receive from the unions a indication of what should be the salary increase for the base salary of our employees. Obviously, competition is made up of other elements as well, including variable compensation, which is not subject to -- to such a automatic hike, but except for that, that's how it works. So it's not salary pressures, it's just how the market adjust itself to inflation due to this collective bargaining agreements.

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>}

Thank you very much for joining the call. Thank you for joining so many calls that I've had the pleasure to lead and all the best for the future and Andre Milanez is sitting here next to me, as well as Marcela, and they'll be happy to take your questions from now on. Thanks a lot.

Operator

That does conclude B3's Audio Conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call Brazil.