

Y 2021 Earnings Call

Company Participants

- Alfredo Egydio Setubal, Chief Executive Officer and Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by, and welcome to Itausa's Conference Call to discuss 2021 Results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded. The presentation is available at the Company's website at www.itausa.com.br, Menu, Results Center, Fourth Quarter of 2021. This conference call and the slide presentation are being transmitted via Internet as well. You can access the webcast by logging onto the Company's website www.itausa.com.br.

Before proceeding, let me mention the forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors. I informed that during the presentation, the questions can be sent via webcast and will be answered at the section of questions and answers.

With us today we have Mr. Alfredo Egydio Setubal, CEO and Investor Relations Officer at Itausa; and Ms. Priscila Grecco Toledo, CFO at Itausa. We want to remember you that the presentation is available at the Company's website at www.itausa.com.br, Menu, Results Center, Fourth Quarter of 2021.

It is now my pleasure to turn the call over to Mr. Alfredo. Sir, you may now begin.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Thank you. Good morning for everybody who is participating with us in this conference call about the results of fourth quarter 2021. For those who are following the presentation, we're starting with the business environment. We had a good business environment for Itausa last year. The economy grow. We could see more activity in most of the sectors and companies that we are invested. So we could use a better growth scenario to increase the business of our companies that we are investing.

I think the only thing that was bad and we are going to see how the economy will perform this year is the inflation, that was very high above 10% among the highest in the world.

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And these took the Central Bank to increase interest rate and probably we are going to see some more increases during the coming months. So we are going to see the reflection of this hike interest rate. Probably we are going to see an economy that probably will not grow during this year. But anyway, the last year was good and our companies had a good performance. The bank increase very much the credit digital portfolio. We are now above BRL1 trillion in credit. It was an impressive number here in Brazil. We could see growth in our companies in buying concessions by Aegea; Alpargatas increasing the portfolio, divesting; Dexco also increasing the portfolio of companies in participation, record numbers for Alpargatas and Dexco also both in revenues, return and EBITDA. So I think it was a very good year or a solid year for the companies that we invested.

In terms of governance, I think we presented an improvement in governance by Itausa. We appointed three independent members. We created many committees in the Board level. So we have more dynamic meetings now with new members, very active and experienced members of our Board. I think we do maintain a very good control of risk. We are investing a lot in technology here in the Company. We changed all the operational systems last year, so we are very updated. We are investing a lot in technology for avoid cyber security attacks.

So I think we are in a good moment here in internal moments of the Company with many things happening in terms of controls, in terms of analysis, in terms of increasing our M&A team. So we are very confident and very happy with that. I think also important here in Brazil, we improved our communication a lot. We achieved almost 950,000 individual investors -- directly investors of Itausa, not compounding these numbers indirect investors through mutual funds, pension funds, insurance companies.

So we increased a lot our communication with that big mass of investors that we have. Through the social media, through the web site, we create monthly newsletter to attend and respond most of the questions that we receive from our investors. We did a very important and for the first time institutional campaign in the social media, on TV, radio last year, it was the first time Itausa came to the communication, come to the television and social media saying who is Itausa, what are the companies that we participate, what are the brands that we have in our portfolio. So it was a very important movement to show Itausa to the society more clearly and with more transparency.

I think all these led us to maintain our participation in most of the index and they're more related to the ESG initiatives. So we are in the most important index in Brazil and outside Brazil, I think it's important recognition that our activity in these ESG segments and ESG important things that are more and more important in the view of investors, in the view of the companies, in the view of Itausa, of course.

We are going to Slide 10. Efficiency and capital location I think is a main issue for us. It's something that we take a very cautious approach. We held Itausa buyback of shares. At NTS, we increased our participation to 8.5% because NTS bought back shares from Petrobras. Petrobras sold the last 10% that remained in the hands of NTS capital and the company bought it back in treasury. So the increase I think was a good investment for NTS business.

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Aegea, I think we announced the investment of almost 13% in the first semester of last year. Aegea is the private leader in sanitation sector. After we bought that first stake, Aegea bought many concessions, and I think the main one was the state of Rio de Janeiro, where we through Aegea brought two of the four concessions that were in auctions. So we became -- Aegea became -- become the most important private company in the sanitation sector.

XP we received from the bank, 15.07% of the capital. We announced since the beginning that is not a strategic investment for us, and we decided in the coming years to sell this stake, to use this capital to other investment in other sectors or to distribute to our shareholders. So we are going to use this capital to increase partially the diversification that we have in other sectors.

We announced we don't want to have companies, only the bank Itau Unibanco in financial services. So XP is available in the coming years for sale for us. We did a sale into end of the last year of 1.39%, and most of the results of that was a distribute of -- as are interest on capital to our shareholders that we announced that this interest on capital that we announced last year, the two ones going to be paid on March 11.

Alpargatas also increasing their capital to face the acquisition of Rothy's, the US company that we bought 49% of the capital. So we are going to allocate around BRL800 million in this offer using our rights to subscribe and maintain and possibly increase a little our participation in the capital of Alpargatas.

On Page 11, we see the important things that happen in our companies that we invested. I think Itau showed a very important result. We are going to talk a little bit more later about all these companies. I think we are very important technology investments, very efficiency in terms of expenses. I think we did a quite good job at the bank. And XP also continues to grow its business and we as I said, sold 1.39% of the capital.

On Page 12, we see also important things that happen in our companies. Alpargatas with the acquisition of Rothy's, I think, we improved a lot digital into internationalization strategy of Havaianas, and also now with Rothy's. So we think this is an important movement, and as I said, we are in this period in the follow-up.

Dexco, the former -- the new name of Duratex, I think we increased a lot the investments that we had in companies that we had new investments. We're on time and on budget on our dissolving pulp project that are going to start to operate by March -- by the end of March, probably. So I think good results and solid results for both Alpargatas and Dexco in terms of EBITDA, in terms of revenues, record number for both companies.

Aegea, as I said, bought two of the four blocks of the concession that was sold by the state of Rio.

Copa Energia, it was a year of integration -- very important integration by the company of Copagaz and Liquigas. I think it was an important year of consolidation

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Going on Page 14, we see in more details the most important highlights of the companies that we invest. I think the bank has solid results, very good results, very recurrent results. I think the market liked it, Itaú has continued to be the top pick by analysts and investors in terms of banks -- traditional banks here in Brazil. I think we are doing a quite good job in terms of digital transformation inside the company and outside.

I think it is our digital bank now, Inside the bank, we achieved almost 15 million clients. Most of them -- more than 80% of them new customers, so they were not customers of Itaú, so very important. We increased a lot of loan portfolio. As I said, we surplus BRL1 trillion. I think mortgage was a very important one in terms of growth and opportunity for growth also this year.

I think in terms of ESG, we continue to be very focused on that through our foundations, through our commitment to contribute sustainable development here in Brazil. We committed BRL400 billion in terms of credit for business, and we did almost 40% of that BRL170 billion last year of this commitment of BRL400 billion that we have until 2025.

In XP, I think XP showed a very good result, very important growth of numbers, increased the new business, like for loan portfolio, insurance. I think XP growth of 48% revenue was -- continued to be sustainable growth and important investments for us, although I said it's not a strategic investment.

In the case of Alpargatas on Page 16, we see that we continue to focus on Havaianas, especially Havaianas in the international market. I think we saw the record number of pairs of flip-flops last year 31 million pairs sold outside Brazil. Exports already represent more than 30% of the revenues of the company. We did an acquisition of a technology company that will speed up -- loansys that will speed up the Alpargatas digital transformation also with new web sites and increase the online commerce here in Brazil, outside Brazil, it's a company with 430 employees, totally dedicated to digital transformation. So I think it was important.

We divested and finished the divestment period of Alpargatas that has started some years ago. And we finished the divesting with the end of Mizuno that we sold the brand, and Osklen also that we sold the company. So now Alpargatas will focus on Havaianas only, and now Rothy's that the company that we bought 49% that is American company related to the markets of shoes for men's, women and accessories. So we are very happy and confident in this investment that will also help to increase our diversification in terms of revenues from different products than Havaianas, and also increase our participation in the international markets as a growth company. So we are happy that we could have the opportunity to invest in these companies. And also this will lead us probably in one or two years to have more dollar revenues than we have today with the growth of Havaianas in the international market and Rothy's also as a company located outside Brazil, especially in the US.

I think as I said, we had record numbers for Havaianas or Alpargatas in the year. It was a very good year for the company, and we are going to subscribe new shares, showing confidence in the business of Havaianas and Alpargatas and Rothy's, the new venture that

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we are going to grow in the coming year. So very happy with all the performance of Havaianas -- of Alpargatas.

Dexco on Page 17, also has a very good year, record a year in terms of revenues, in terms of EBITDA, in terms of profits. I think we announced some many new investments for the coming years in increasing productivity, increasing automation of our factories, a new factory for tiles, for the new lines for that business. So we announced some investments in ABC Construção. That is a very growth important company in the retail side of the material for -- building material. We announced Castelatto, also a new investment that will complement Deca line in terms of product in the high-end segment of the market. And new investments through our venture refunds with some important companies that we believe that can grow a lot in the coming years some of them. So it was a good year, new investments, new companies, new participations, records in terms of revenues. So it was also a very important and good year for Dexco.

On Page 18, Aegea, a new investment that we announced in the first semester of last year. The company is the most important, the biggest one in the sanitation -- in the private sector of the sanitation sector. We are now at 10% of the Brazilian population which is a very good number, and a company that has many investments opportunities through concessions that will come to the market this year and in the coming years to attend the new law that regulates the sanitation sector during these next 10 years.

So I think we bought important stake. If possible, we'd like to increase this stake in the company. But anyway, it's a company that is growing with very good generation of cash, with very good results. So we are very happy to participate in this sector that has very good and great opportunities for growth in the coming years.

On Page 19, Copa Energia. Copa was a year of consolidation of Copagaz and Liquigas. I think it was in the year of integration, synergies, results. I think the company has a good year. We lose some margin because the price of the gas increased a lot by Petrobras, and we had a delay in passing through the price to customers. So because of that, we have some loss of margin, but anyway, the company is in good shape, company is growing, and probably this year, we are going to reduce more our debt that is part of our business plan. We'll leverage a lot the company to make the acquisition of the Liquigas from Petrobras, and the cash generation is good enough to continue to reduce the debt that we got last year.

NTS, as I said, bought the -- had a good year in terms of revenues, the revenues grew a lot. The company was able to pass through the inflation in terms of revenues. Net income increased 21%. The company continues to pay good dividends for shareholders, and as I said, bought back 10% of the capital from Petrobras, the remaining stake of Petrobras in the company. So now it's a total private company and a very good one and growing in terms of numbers. And we are also very, very happy with this investment.

Going to Itaúsa's results on Page 21. We had a record number of net income BRL12.2 billion in terms of results, and ROE of 20%, so also impressive number, a much higher in terms of profits and in terms of ROE when we compare to 2020. Total assets of BRL74

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billion. Debt of 3.8 still low to the size of the company, we can leverage more if we have opportunities to new investments, so stockholder sector was BRL66 billion. So very solid numbers, very low debt, very good capital structure that we can see on Page 23. We have -- most of our liabilities are dividends, interest on capital to pay, debentures that we issued and last years to face the new investments that we have. So it's a very solid balance sheet that we have, just 5% of debt compared to our total liabilities and stockholders equity.

So very, very prudent investments. And we can see on Page 24, the amortization is scheduled of this debt. This year, we are going to have to pay this BRL400 million that we have is the first part of -- the first debentures that we issued when we bought NTS. So we are going to pay this BRL400 million, I think, is in April-May -- max May, we are going to pay this part of the debt that is due this year.

Dividends and interest on capital, we have always paid back to investors the dividend received by the bank. We continue to see growth of dividends received by our all the companies, by our other investments. But this year, we increased the dividends, interest on capital because we sold part of the investment that we had in XP, and with the profit, we distribute BRL1.1 billion interest on capital additional for our shareholders. So if we compound this BRL1.1 billion, we are going to have dividend yields of 6% last year, what is reasonable when we see the Selic at 6% in average last year.

And to finish on Page 26, we see that we have total assets at market value of BRL100 billion. Itausa's market value is BRL79 billion, so we have a discount of 21%. It was higher in other periods. We had moments of 28%, 29% of discount. We are now in the range of 2022, 21% in average, I think. So we think still the discount is huge.

So we think all the investments that we have, have very good and nice returns for the shareholders in terms of ROE, in terms of value creation, so we think the discount is still high and we could see and we are working hard to show the market goods investments, good value creation in the companies that we are investing on. And so we think the discounts can be reduced in the coming years.

That's it we have to show and present today. And we are open for questions that you may have about Itausa results. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.
(Operator Instructions)

This concludes today's question-and-answer session. Mr. Alfredo, at this time, you may proceed with your closing statements.

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A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

Okay, thank you. As we have no questions, I think we continue to here to be open in our Investor Relations department. If you want to contact us directly, we will be happy for us.

I think we showed good results, solid results for all the companies that we invest on. We are happy with the investments. I think we have good companies and good perspective and good investment, companies that can grow and can continue to show good results and good ROEs for our investors. And we are very confident in the capacity of Itausa of creating value for our shareholders.

Thank you for the participation of you. As I said, we are open for our Investor Relations department here for questions, and take some doubts that you may have specifically, about our demonstration of results, our notes and so on in the balance sheet. So if you have any questions, don't hesitate and call us and we'll be happy to clarify everything that we want to be clarified. Thank you, and have a good day.

Operator

That does conclude our Itausa' 2021 results conference for today. Thank you very much for your participation, and have a nice day.

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