

Q2 2019 Earnings Call

Company Participants

- Alfredo Egydio Setubal, Chief Executive Officer and Investor Relations officer

Other Participants

- Adriana S. de Lozada, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Itausa's Conference Call to discuss the first half of 2019 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 file will be available at the Company's website at www.itausa.com.br/en, at the Investor Relations section. This conference call and a slide presentation are being transmitted via Internet as well. You can access the webcast by logging on to the Company's website, www.itausa.com.br/en.

Before proceeding, let me mention that 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 inform that during the presentation, the questions can be sent by webcast and it will be answered in the Q&A session.

With us today we have Mr. Alfredo Egydio Setubal, CEO and Investor Relations Officer at Itausa; Mr. Henri Penchas, Chairman of the Board of Directors at Itausa; Mrs. Priscila Grecco Toledo, CFO at Itausa; Mr. Bruno Salem Brasil, Investor Relations Manager at Itausa; Mr. Alexsandro Broedel, Executive Finance Director and Investor Relations Officer at Itau Unibanco; Mr. Guilherme Setubal Souza e Silva, Investor Relations and New Business Manager at Duratex; and Mr. Carlos Biehl, Investor Relations Manager at Alpargatas.

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

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Good morning. It's a pleasure to be here again to talk about the results and the strategy of Itausa for the coming years and semesters. For those who are phoning through the Internet, we are on Page 3, a little bit about us. Just to remember, Itausa is a publicly

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holding company that controls several companies, including Itau Unibanco, Duratex, Alpargatas and NTS. We are present in more than 20 countries considering all these companies, and we have a focus on strengthening our management and our long term view on value creation of our portfolio.

Itausa is the eighth largest company in the Ibovespa and we have a very high dividend yield that we are going to talk later, around 9% considering the dividend that we announced yesterday. All the companies that we have participation has very strong brands. Itau itself, Itau Personnalite, that is a private banking, there are high-end individuals, Rede, Itaucard. In the case of Duratex, we have Deca in appliance, Duraflor for flooring, Hydra for valves. And also Portinari, that is a company that we just bought in the ceramic business that we are investing in Duratex. In the case of Alpargatas, of course, we have Havaianas and Osklen, that is a premium fashion brand.

Going to Page 5, we are going to talk briefly because all these companies already made their releases and already made their conference calls in the last weeks. So we go to Page 6, the highlights for the Itau results. Always remembering that Itau's numbers in the case of the bank doesn't match exactly because Itausa use the IFRS numbers and Itau released their numbers under the Central Bank rules for accountability -- for accounting.

We continue to grow our loan portfolio among individuals and small and mid-sized companies. We continue to have hedge our payment company with a very -- in a very competitive environment with all the companies fighting very hardly to gain market share and bolster the brands under these markets. This is completely different market when we compare to some years ago, when we bought the totality of the shares of Rede, and we are announced changes in our commercial policies during this quarter to Rede to be more competitive among all these new entrants in the sector.

The bank continued to pay dividends. We are creating more capital than we need in the circumstance of the Brazilian economy, especially related to credit. So the bank now set BRL8.5 billion dividend in these periods. They continue to be a high yield also for the bank. The bank continues to be very active in the digital transformation of the system with huge investments in technology, people, in products to serve better and cheaper our clients. We have almost 12 million individual clients using digital channels offered by the bank.

We opened 205,000 accounts through our app -- digital app. It is much more simple and easy for the clients to open an account with us. And of course, as I said, we continue to invest a lot in technology this year to reduce cost and produce more products and technology and apps for our clients using always the brand Itau to compete in this new environment of digital transformation in the system that we are seeing here in Brazil and in most of the countries around the world.

The portfolio for loan in small companies increased in the last 12 months, 18.4%, and individuals 13.6%. Large companies are using less because they are making less investments, also less demand for credit because the economy is not very -- not hit overall

(Technical Difficulty) more important for the Company and according the strategy of the Company to increase our share in these markets.

The JV with Lenzing related to pulping -- dissolving pulp, we already have the permit to start the project from the (inaudible) authorities. So we started this month -- some months before a project, the first infrastructure in the sites in Minas Gerais. We are completing probably in this third quarter the expansion of Ceusa, doubling the capacity in ceramic tiles and probably these new plants will start commercial producing in the beginning of the fourth quarter of this year.

In terms of use of assets, like we made in the last quarters that we sold forest and lands for Suzano that were in excess for the wood business. We closed a factory of panels here in the City of Sao Paulo. And now we announced to shut down a factory in the south of Brazil related to bathroom porcelain, that we are going to transfer the production of these units to other fabrics or our other units of Duratex and we are going to close definitive and send the factory in the south. So this means more gains (Technical Difficulty) non-recurrent deals like the sale of the lands and forests to Suzano.

So this year when we compare the results, we have some decrease also in the ROE. But this year, Duratex is in line with the budget that was approved by the Board of Directors in the end of the year. So we were not expecting a very heated economy. So the numbers are still in line with the budgets that we project for the company. And the same for the EBITDA that continues to be in line with the projections that we have.

On Page 8, Alpargatas, that released results and made a conference call yesterday. Alpargatas had a very good quarter, the second quarter. We continue to change many (Technical Difficulty) we continue to make changes in the company in terms of culture, people. We changed the management in the North American operation. We started off a JV in India. We are starting business in China. So the company is doing their plan to be more international, use more technology, especially eCommerce, with deals with Amazon, Alibaba and all others, to increase the sales of especially Havaianas in the International market.

So the company had a double digit revenue growth when we compare to year-on-year, driven by Havaianas. All the business of Alpargatas did well when we compared 12 months. Havaianas, of course, is the biggest by far business of Alpargatas, but Mizuno, Osklen also increased their sales and increased their eCommerce. So, the results also 31.5%, ROE reduces because we had some non-recurrent last year and we made some impairments this quarter related to the sale of assets in Argentina, related to the textile business of Argentina that we announced and sold for \$14.4 million, and we announced that some weeks ago. So the company had a very good quarter. The share had a good -- the markets received very well the results. And we are very happy with the investment and we continue to see very good years coming for the company.

On Page 9, we start to talk about NTS. NTS is stake in the gas pipeline that we bought some years ago. I think the company continues to present results a little bit over the numbers that we considered when we bought this investment. The company had

revenues of BRL2.2 billion and a net income of BRL1.1 billion. And we received in the first of half of this year, 2019, BRL84 million in dividends.

Going to Page 11, main events of Itaúsa in this first semester. We declared BRL2.9 billion dividends yesterday. This is going to be paid on the 23rd of this month, with the stock holding position of 15th of August. These dividends make the dividend yield -- considering the last 12 months and considering the dividend that we announced yesterday, a dividend yield of 9.1% for the shareholders. That is very good and very high, especially when we compare to the SELIC rate that is 6%, here in Brazil.

We achieved almost 250,000 shareholding -- individual shareholders by the end of June. This number today is already higher than that. So our liquidity also increased. Our market share is BRL180 billion by the end of June.

In terms of sustainability and corporate governance, we released for the first time the integrated report that was published. That is the first holding company publishing this kind of report in Latin America and also we created here at Itaúsa a Social Impact Committee to follow the investments in social, cultural, environmental of the companies that Itaúsa has participation.

We increased our share in the Alpargatas company. We increased by 0.9%, almost 1%. We bought that in the stock market in an auction of minority shareholders that decided to sell their stakes in the company. And we used this to buy back -- to buy shares in the market, increasing our position and showing our confidence in the future of the company.

We merged Itaútec (Technical Difficulty) Itaú, so Itaútec now is a 100% of Itaúsa and we already dislisted Itaútec from the markets and our Itaúsa Empreendimentos, that was a subsidiary that all the people and all the employees and everything was made through them, this company will be 100% Itaúsa Investments by the end of this month. This company -- this subsidiary will not exist from September. The objective is to reduce costs of the holding and give more transparency in terms of numbers, expenses and administrative expenses for our investors.

On Page 12, numbers of Itaúsa in the end of June. So, net income increased 10.7%. Always remember that is in IFRS numbers (Technical Difficulty) BRL4.9 billion, an increase of 10.7%. ROE increased from 17.6% to 18.7% and recurring ROE increased from 17.1% to 17.8%. Total assets BRL56 billion. Of that, BRL52 billion are shareholders' equity. The payout in this page does not include the dividend that we announced yesterday. So, that's the difference of numbers that appears in 9.1% against 8.2% in this page.

We continue to (Technical Difficulty)

Operator

Ladies and gentlemen, please hold. Speakers, you may proceed.

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Alfredo Egydio Setubal {BIO 1528623 <GO>}

Really starting on Page 15, the portfolio of Itausa is the sum of the five companies are listed. (Technical Difficulty) the discount of 21.8% when you compare with some of the parts in the market value. The average daily traded volume increasing year by year beginning from BRL156 million in 2017 and this year the average daily trading is BRL319 million, a very good number. We don't have (inaudible) listed in the international exchanges. The number of shareholders and the trading volume increased rapidly.

Page 16 is related to the integrated report that we released in March this year, recommends the -- deeply recommends the reading of the report, because it explains how Itausa takes decision that is affecting strategic decisions in the way investing, divesting, how Itausa is influencing the companies that we participate in terms of all the strategies, capital, our culture, people, always very interesting (inaudible) they are interested in investing or already invested in Itausa.

On Page 17, our performance in the capital markets. We have good returns 10, 5 years and this year returns for our shareholders in 10 years 16.4% a year and 5 years 23.1% and the last 12 months 53%. So (Technical Difficulty)

This concludes the presentation, and we are open for questions from who are with us.

Questions And Answers

Operator

Thank you. (Operator Instructions) First question comes from Adriana de Lozada, Scotiabank.

Q - Adriana S. de Lozada {BIO 19985282 <GO>}

Good morning, and congratulations on the results. I just wanted to know a bit more information about potential acquisition of the Petrobras subsidiary. I wasn't able to hear very well the last part of the presentation. So I don't know if you already mentioned it, but if you can give us more details about that. I believe it was the phone and yes, any information helps. Thank you.

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

Adriana, it's Alfredo speaking. We have many NDAs signed with many companies, always looking for alternatives that really can create value for our investors and the policy that we have to find business for our portfolio that we are trying to build in coming years. As you know, we really are looking at (Technical Difficulty) We are following this business, but we are not particularly involved in this business for the -- as a company. But we are following the rules, the consortium and we are interested in it depending on our time, depending on all the conditions to continue a stake in the company, but today, we have no news about that. We continue to follow and continue to talk, but we haven't yet no (Technical Difficulty) from Petrobras and all of the members that (Technical Difficulty) from Petrobras

is under the (Technical Difficulty) special rules in terms of occupation of the members of the consortium and so on. So there is a lot of movement in consortium that we are following, but today we have -- nothing, no news on this to really say about the (inaudible) participation of Itausa in this event.

Q - Adriana S. de Lozada {BIO 19985282 <GO>}

Got it. Thank you very much.

Operator

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

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

Okay. Thank you for the presentation. We had a very good quarter and very good semester in Itausa and its subsidiaries during the last six months. It was a challenging environment for how the company is dealing (inaudible) and we think we are making our homework and preparing this Brazilian companies that we have stake for a period of growth (Technical Difficulty) during the coming years, reducing cost. We have investing and productivity, investing in new companies like Duratex and Cecrisa and looking for investments that make sense in our portfolio. So, I think Itausa is in a good environment with share, increasing our number of shareholders and liquidity, there is a good payout. So, we are happy with the company, and look to talk with you again in our next conference call. Thank you.

Operator

That does conclude our Itausa's 2019 results conference call. Thank you very much for your participation. You may now disconnect.

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