

Q2 2018 Earnings Call

Company Participants

- Alfredo Egydio Setubal, Vice Chairman & Chief Executive Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Thank you for standing by, and welcome to Itaúsa's Conference Call to Discuss the First Half of 2018 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. 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. During the conference call, you can send questions that will be answered after the presentation.

This conference call and the 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.

With us today, we have Mr. Alfredo Egydio Setubal, CEO and Investor Relations Officer at Itaúsa; Mr. Henri Penchas, Chairman of the Board of Director at Itaúsa; Mrs. Priscila Grecco Toledo, CFO at Itaúsa; Mr. Bruno Brasil, Investor Relations Manager at Itaúsa; Mr. Geraldo Soares, Investor Relations Superintendent at Itaú Unibanco; Mr. Guilherme Setubal, Investor Relations Executive Manager at Duratex; and Mr. Carlos Biehl, Investor Relations Manager at ALPARGATAS.

Participants connected via webcast can also send questions.

It is now my pleasure to turn the call over to Mr. Alfredo.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Thank you. Good morning for those who are in the U.S., good afternoon for those who are in Europe. We are starting our conference call. We are on page 3 for those who are following through the Internet. We are going to cover a little bit highlights, very short highlights from the subsidiaries, members of Itaúsa and then we open for Q&A part section of this conference call.

FINAL

On page 4, we see the subsidiaries, Itaú, Duratex and Alpargatas. On page 5, we highlight some points of Itaú Unibanco. The first highlight is the growth of the loan portfolio, 4.3%, mainly because of the individual's credit. The demand is better. So, we are growing especially in this segment. And in the case of corporations and middle market, the demand is not so high. So, we continue to reduce the portfolio. And the good news on the default indicators, the NPL continues to be the trend to reduce the numbers.

In the digital agenda, this is very important for the future of the bank, we highlight here what we did in the mobile payment system. Itaú was the first bank to offer the Apple Pay and we followed by offering also the Samsung Pay for our customers. Of course, there are many other initiatives during the period especially in the apps, but we highlighted these for the mobile payment system. We now have the permanent operation of the Fiscal Council approved by the last shareholders' meeting. So, now, it's permanent.

And we have the approval of XP by the Central Bank. The Central Bank reduced the - changed a lot the initial deal, imposed many restrictions that was approved by the CADE, the antitrust authority. But the Central Bank imposed new restrictions for review, but anyway, we decided to continue with this investment even though with those restrictions.

In terms of highlights also, we have the net income and recurrent ROE. The ROE continued to be around 20% annualized, but it's a good number due to the conditions of the economy in Brazil especially in the low demand for credit especially for contracts.

The result of second quarter was BRL 5.8 billion in terms of recurrent net income. And for the first semester, BRL 12.1 billion, in line with the first semester of last year, a little bit below of 2.1%. Just remember that these numbers are in the international standards. These numbers differ a little of the numbers that the bank released when it showed the number for the second quarter and first semester. These numbers are in the international standards.

Another highlight is the commissions and fees revenues from insurance, for severances, pension plan premiums that increased 5.2% in the quarter and 4.6% in the last 12 months which is a good trend and in line with the strategy of the bank to increase non-credit revenues strategies that we adopted in the last years and we will continue in the coming years.

On page 6, some highlights from Duratex. The first is the joint venture that Duratex announced with Lenzing, an Austria company leader in the cellulose fibers. And we announced to create a dissolving wood pulp plant in the state of Minas Gerais. Duratex will hold 49% of this new company. Lenzing, 51% and the total investment for the two companies in the new corp (07:48) will be around \$1 billion and we'll probably use that debt in the second semester of next year after all the studies and the final approval from both parties.

Duratex also sold land and forest to Suzano. The land and forest are over what we need in terms of - for the production for our panels, wood panels. So, we sold the excess of forest and land that we have here in the state of São Paulo to Suzano. Suzano also decided

FINAL

option to buy land in July, the second tranche of this sale. So, we are going to have the second half of the year a net income impact on the results of Duratex of BRL 360 million.

CEUSA is the tile production company that we bought last year, start to operate this year. We announced an investment of BRL 94 million to increase by 83% the capacity of the company. The company was operating at full capacity, so we announced that this investment that probably will be complete in the third quarter of 2019. So, the company, CEUSA, will have capacity to improve the production and increase its market share.

And other highlight is that the (09:48) authority approved the deal with Eucatex, the swap of the factory of Botucatu of hardboard. And Eucatex will swap that factory with the land and forest for Duratex. So, these are the four major announcements of the deal.

Duratex also increased net income and ROE and mainly impacted by the sale of the land and forest for Suzano. And this sale, the final objective of those sales is to reduce the net debt of the company that was 2.9 times at the end of June 19, 2017. And we expected this year to have below 2 times, and by the next year around 1 time the EBITDA and debt. So, the company is restructuring its debt.

Going to page 7. We see Alpargatas. I think the highlight of the period, we put three here. We elected in the last shareholders' meeting two independent members for the board of directors and also they will participate in some of the committees that we created during the last quarter of 2017. The company is analyzing our alternatives. We hired external consulting to discuss more about the strategy here in Brazil and also in international.

The result for this second quarter was a reduction when we compare to second quarter of 2017, and the same for the first semester. In first semester of 2017, we have no recurrent result due to reversion on the taxes that the company was provisioned, but we not need to pay. So, the first semester of that year has this huge impact. That's the main reason when we analyze the results. And the company continued to regenerate good EBITDA. So, we continue to grow the numbers and continue with positive quarter dividend.

On page 8, we have some numbers from NTS. NTS is the gas distribution company that we have a stake. The company renegotiated the debenture. So, Itaúsa was creditor of this debenture. And we received BRL 442 million, and the company reduced the cost of capital under the new management to reduce the cost of the debt.

So, Itaúsa received BRL 442 million. The company increased the results by 11% on BRL 935 million. And the company continues to pay most of the profits in dividends, and we received during this period, the first semester, BRL 91 million in dividend and interest on cap.

Now, we go to page 10, where we can see the main events and numbers from Itaúsa itself. The highlights for the period in terms of Itaúsa was the capital call of BRL 1.4 billion, everything to describe it by the shareholders in the private capitalization. A bonus share of 10% on preferred shares, so all the shareholders received preferred shares. We made a buyback of 2.5 million shares in June at a price of BRL 9.07 for these shares.

FINAL

And important sale of Elekeiroz, and we leave the chemical sector, and we sold all the shares that the company held at Elekeiroz for HIG private equities fund, and Itaúsa will receive - we've already received BRL 30 million for that sale, and we've have earn-outs according to some parameters and some metrics that the company, Elekeiroz, if performed in the coming years, Itaú will receive complementary amount for this sale.

On page 11, we have some numbers for Itaúsa. Always remember the numbers and international standards accounting. Net income in the first half of the year, BRL 4,447 million with an increase of almost 8% when we compare to the first semester of 2017, and recurrent net income of BRL 4.3 billion, with an increase of 1.1%. Return on the average equity, annualized, 17.6%, a little bit superior with 17.4% of the first half of last year.

On page 12, we can see the total assets of Itaúsa. BRL 55 billion, BRL 52 billion related to the investments that we have in our subsidiaries mainly. Of that, 90.7% is related to the participation in the financial sector through Itaú Unibanco Holding. 8.7% from non-financial sector, mainly Duratex and Alpargatas.

On page 13, we see the dividends and interest on capital. Itaúsa announced the complimentary dividends that we are going to pay in August, and we continue to pay the same amount for the shareholders in 2018 that we received from the Itaú Unibanco Holding, and we retain the dividends from the other companies to serve the day-to-day business of Itaúsa and to recover cash position that Itaúsa has to future investment or paying dividends and to new investments.

On page 14, the capital composition Itaúsa is very well capitalized. The liabilities that we have is mainly dividend interest to pay to shareholders that are already provisioned, debentures that we issued to buy the participation in NTS, BRL 1.2 billion, and you can see on the right side of the table the amortization of these debentures that will be in 2022, 2023 and 2024, the years for amortization of this debt. And also, provisions that we have for fiscal discretion that we have ingested (19:49), I guess, the bank authority here in Brazil.

In terms from page 15, we have the market value of the portfolio of Itaúsa. The total portfolio of all these participations that we have amounted to BRL 102 billion, the market value of Itaúsa is just BRL 77 billion. What it means that the share is trading at a discount of 24.3%. As we have a good policy of buybacks and dividends, we can see that Itaúsa have a good payout for the shareholders. We're going to see that in the coming slides.

On page 16, we put some four competitive edge of Itaúsa. The first that we put here is in terms of financial. Itaúsa has a very solid balance sheet, very low debt, and a high dividend yield. Itaúsa announced it paid this first half BRL 2 billion in dividends. We have recurrent net income of BRL 4.3 billion, as I said, and a total market capitalization BRL 77 billion, so we have a very solid company.

In terms of human capital, Itaúsa and its subsidiaries have a very good talent attraction and retention for people. We have a very good people working for us in the level of the

holding and subsidiaries, and all the companies invest a lot in training and developing its personnel.

In terms of reputational capital, we have a very solid corporate governance and ethical principles and very transparency principles for all the shareholders and stakeholders of the company. We have been in the Dow Jones Sustainability Index for 14th year in a row, and we are listed also in the Sustainability Index of B3 for companies for 11 years in a row.

In terms of intellectual capital, we have people who invest, analyze investments in companies, very solid companies, market leaders, companies with renowned brands and with very good cash flows that where we create value for our shareholders, and that's the movement that we did in the last years, changing a lot the portfolio of investments of the holding. So, you will see here and on the base of this slide what we expect in terms of companies to invest and we expect a return for these new investments of 200 basis points both the cost of capital that's for Itaúsa. We use the same cost of capital of the bank, Itaú Unibanco. There is BRL 14.5 million (23:49).

On page 17, we see the evolution of our share against the interest rate and the dollar and the Ibovespa. We have good numbers in general to show to the market. And we have also, for those wanted to or a newbie here in Brazil, we have the public meeting with the investors and shareholders on the 13th of September in São Paulo at the Hotel Unique. So for those who will be in Brazil in that day, it will be a pleasure to receive you from 9:30 AM in the morning up to midday.

Okay. Thank you. We are now open for questions about the numbers and the figures and the strategy of the company.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session.

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

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

Thank you for the participation from outside Brazil. We are here open. Our team of our Investor Relations here to help you if you have any doubts or any question about what we explained here today and the members of the company. The team is in place to answer all your doubts. Thank you for the participation, and I'll see you on the next conference call with Itaúsa.

Operator

That does conclude our Itaúsa's first half of 2018 results conference call. Thank you very much for your participation. You may now disconnect.

FINAL

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.

Bloomberg Transcript