

# Q3 2020 Earnings Call

## Company Participants

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

## Other Participants

- Thomas Peredo, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call of B3 Earnings Results for the Third Quarter of 2020. At this time, all participants are in a listen-only mode. Later, we will conduct a Q&A session, and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded and broadcast 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>}

Hello. Good morning, everyone. Thank you for joining our call. I'm here with the Investor Relations and the Finance teams. And I just want to take the opportunity to thank them for putting the materials together for the call and for the other media that we have used to share our results with you.

We had a very successful quarter with positive results in most of our businesses. We are seeing a very important development in the Brazilian capital markets with more companies accessing the markets for both equities and debt transactions, and also more and more investors using the products and services are B3 to diversify their portfolios in an environment of low interest rates. And that has brought additional volumes to our platforms. We think this is a structural change. In addition to that, we've also seen quite a bit of volatility in our markets due to the economics and health news related to the pandemic and also volatility in all types of asset prices including FX, equities and others.

I'm going to turn over the call to Marcela. She is going to get into a little bit more detail about each one of the segments and some of our numbers, but it's going to be a rather brief conversation, and then we will open up for Q&A. Thank you.

### Marcela Bretas

Thank you, Daniel. Good morning, everyone. I'll just as Sonder mentioned go through the highlights of the quarter very briefly. I assume most of you have already read the earnings release and maybe you had the opportunity also to listen to our podcast which we make available every quarter.

So this quarter, as Daniel mentioned, was a solid quarter, especially when we take a look into our equities -- listed equities business, we had a very strong quarter in terms of volumes. So ADTV

reached almost BRL29 billion during this quarter and influence of new investors was one of the key reasons that supported that -- those higher volumes. At the end of the quarter, we had more than 3 million individual accounts in our depository which was a 120% higher than what we observed at the end of September last year.

Moving on to our derivatives business, volumes remained somewhat stable versus what we observed last year. But we had a positive impact in terms of revenues coming mostly from a higher share of FX contracts in our product mix as well as higher RPCs since some of our contracts are priced in dollars.

On our OTC business, we continued to see strong volumes in terms of banking funding instruments issuance and stock, which have been 40% up year-on-year. And also we continued to see a stronger volumes in terms of capital -- local debt capital market transactions with stocks up 9% year-on-year.

Finally, moving on to our infrastructure for financing business, revenues were still down this year 19% quarter -- this quarter compared to the third quarter of last year. However, we started to have some positive times of potential recovery for this market, starting in August, we started to see recovery in terms of volumes of vehicles sold and financed. In September, we had a very strong month, the best month of the year-to-date, and also even a little bit better than what we observed in 2019. So we have reason to believe that hopefully the remainder of the year will have a more positive dynamics for this segment, which has been suffering a lot with the planned time as a result of the COVID-19 pandemic.

In terms of ex -- revenues we reached BRL2.5 billion in gross revenues, which was roughly 47% higher than what we observed in 2019. And our EBITDA for the quarter reached BRL1.7 billion, a 79% margin driven by this growth in revenues mostly and disciplined expense control. I just think it's worth mentioning as well that this quarter we had a non-recurring impact coming from the settlement of a legal dispute we have with Spread bankruptcy estate, which impacted our revenues, expense and tax line, and it's worth mentioning that has somewhat affected our results for the quarter.

Finally, I'd like to highlight our debt position at the end of the quarter which was BRL6.9 billion after the issuance of BRL3.55 billion debenture local -- in the local market that we issued in August. And the breakdown of our \$612 million Global Bond that was due in July. With that we reached an indebtedness level of 1.2 times gross debt to EBITDA at the end of the quarter.

Having said that, I think we can open up for questions. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Thomas Peredo, BTG Pactual.

#### Q - Thomas Peredo {BIO 21712295 <GO>}

Hi. Good morning, Sonder, Marcela and team. So my first question is regarding the Retail Liquidity Provider. Do you have an expectation of when will it be expanded to other products for example equities as CVM already indicated that they would like this new service to be tested in more than -- more products than just the mini contracts. And also if you could share us if you have any steadier estimates of how much have the Retail Liquidity Provider contributed to the fast growth [ph] base of mini contracts, by coincidence or not we noticed that mini contracts volumes accelerated a lot since the Retail Liquidity Provider was implemented?

And a second question if I may is, how you are looking at the EBITDA margins going forward? With the new levels of volumes, you are more and more closer to 80% EBITDA margin level. Can we expect more change in pricing policy to share margin [ph] in scale with market participants? And the new equities priced in scheme that were implemented during first half next year, do you have any estimates on the impacts to trading margins and EBITDA margins of this new pricing policy given that the volumes increased a lot since you announced and gave kind of an estimate of the impact? Thank you.

**A - Daniel Sonder** {BIO 18250247 <GO>}

Thomas, thank you. Thank you very much for the question. So let me try to address this. We are in ongoing conversations with market participants and with the regulator about the Retail Liquidity Provider, RLP. Let's say, the progress and the next step that was (inaudible) product. This was a very, very important innovation that B3 brought to the Brazilian markets. And we -- it was a long road in terms of getting everybody to think together both market participants and the retail brokers and regulators, and obviously, our teams in operations, technology and rules, so that we could create this new feature into our platform.

The regulator has been a great partner of B3 in the development of this and has obviously done a thoughtful job in terms of understanding the impacts and the consequences of this in the market, which seem to be pretty positive up to now. So that when they had a chance to look at the product and make a decision recently on whether to move forward with it, their decision was in the direction of maintaining this product which has been -- which have been in a kind of a pilot phase for the first year.

The next step would naturally be to expand it into other products as we mentioned, but we are really taking it gradually and working together with the market and the regulator to make sure that everybody is comfortable whenever we think that next step. So I don't have a particular date. It's an ongoing conversation. It's high on our priority list in terms of things that we think could help the further development of the business of the brokers and ourselves, and we're going to do this when the regulator feels it's the right time to do so.

In terms of the impact, we don't have, let's say -- we are releasing the numbers about RLP. It's public in our website that I can direct you to some of the statistics. I am not going to get into a lot of the statistics here, but it's important to understand that they saw a relativity [ph] that is now happening in the RLP, was already part of our volumes that was directed towards -- through the direct trades from the retail brokers over the time before that RLP was put in place. But it's also interesting to note that as we brought this on to the exchange more people were able to access it, more brokers were able to offer it to the client. It used to be restricted to a handful of brokers, which were, I'd say, executing these type of transactions, and then when we say formalized RLP with (inaudible) CVM became something that is more broadly used by market participants.

So there is certainly an impact on our -- on the volumes of mini contracts that you see. I think that you will have been very detrimental to the whole ecosystem, including ourselves, if B3 have not booked together this innovation a little more than one year ago. But I'll send you some of the statistics tables, and you can look a little bit more on what exactly is happening there.

With regards to your second point on EBITDA margins, we have been working on changes in our pricing. As you know, we did face some delays put in place the desired changes and this will come online during the first half of next year at some point, and we will continue to study these things. We don't manage the company, not necessarily looking at our EBITDA margin, we've tried to look at how the perception of clients is regarding our services, our product set, our innovations, our pricing too. So pricing is definitely one of the components of the conversations that we have with clients.

And as stated before, our long-term objective is in fact to share with the market the benefits of the growth that we're having. We remain absolutely committed to it. We are not planning to change course, and it's just that the implementation that we expected to see this year was unfortunately delayed, and it so happens that it happened in the same time that we saw a very sharp increase in volumes. So we gave an estimate -- you asked for an estimate, we gave an estimate last year or very early year looking back 12 months, we were talking about the reduction of BRL250 million in our total revenues in this back test [ph], but if we were to apply that again, and I don't have the number here at this point, but it would have been a much bigger number in the backdrop one [ph] just because the volumes went up significantly and this is the volume-driven discount scheme, so that more people trade less, they would pay and that they would have paid that was already facing in 2020. So I would look at our current margin as somewhat abnormal and we expect that they will be somewhat different once we put in place the changes in price.

**Q - Thomas Peredo** {BIO 21712295 <GO>}

Perfect. Thank you.

**Operator**

(Operator Instructions) This concludes today's Q&A session. I would like to invite Mr. Daniel Sonder to proceed with his closing statements.

**A - Daniel Sonder** {BIO 18250247 <GO>}

Well, thank you for joining in. I hope that our materials are clear and that this call was helpful. And if you have any further questions, please reach out to us, we want to be helpful. Bye.

**Operator**

That does concludes B3 audio conference for today. Thank you very much for your participation. Have a good afternoon and thank you for using Chorus Call.

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