

## ISSUER COMMENT

22 March 2022

### RATINGS

#### B3 SA. Brasil Bolsa Balcao

Lt issuer rating (domestic)	Ba1
Senior Unsecured rating (domestic)	Ba1
Outlook	Stable

Source: Moody's Investors Service as of 18 March 2022

### KEY METRICS:

	Q4 2021	Q3 2021	Q4 2020
Pre tax income (BRL million)	1,452	1,569	1,513
Pre tax margin (%)	59.7%	62.5%	61.7%
Debt/EBITDA (securities)	1.7x	1.8x	1.1x
(Retained Cash Flow-CapEx) / Debt (%)	1.8%	6.4%	27.7%
EBITDA (Securities) / Interest Expense	11.1x	14.7x	14.2x

Source: Moody's Investors Service

### Analyst Contacts

Alexandre Albuquerque  
 VP-Senior Analyst  
 alexandre.albuquerque@moodys.com

Lucas Viegas  
 VP-Senior Analyst  
 lucas.viegas@moodys.com

Vincent Detilleux,  
 CFA  
 Associate Analyst  
 vincent.detilleux@moodys.com

## B3 S.A. - Brasil, Bolsa, Balcao

Credit neutral results driven by normalizing market activities; leverage guidance revised downward

### B3 S.A. – Brasil, Bolsa, Balcao's (B3) reported credit neutral fourth-quarter results.

#### A steady volume of cash equities offset a decline in the volume of foreign exchange (FX), interest rate, currency and commodity (FICC) derivatives.

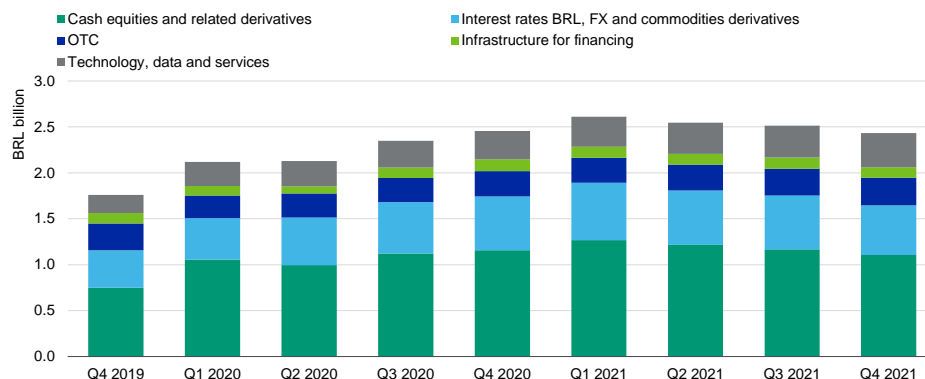
Trading volumes in Q4 2021 kept the good performance from prior quarters and remained above pre-pandemic levels. Average daily trading volume (ADTV) in B3's cash equities and equity-related derivatives were steady at BRL 31.5 billion in Q4, compared with one quarter prior, lower by just 0.1% year-over-year, reflecting high interest rates and low attractiveness of equities. Average daily volume (ADV) in interest rate, FX, and commodities fell 8.2% in Q4 2021 to 4.2 million contracts a day, reverting the rising trend from previous quarters, and up by just 0.7% versus Q4 2020. Revenues per contract (RPC) fell 5.3% relative to Q4 2020, reflecting mostly a decline in revenue from FX rate contracts.

Revenue (net of provision reversals) went down by 3.2% in the quarter, remaining flat versus Q4 2020. Trading volumes stood strong compared to historical values, though declining over the last four quarters after peaking in 2020. In Q4 2021, earnings originated by the listed equities division fell 5.1% from the previous quarter and 4.4% versus the same period in 2020, reflecting a decline in new operations at the end of 2021. Revenue from the listed derivatives division went down by 7.8% sequentially and 7.6% year-over-year. In aggregate, these divisions represented 68% of B3's overall revenue in December 2021 (exhibit 1).

Exhibit 1

### Slightly decreasing revenue as market activity normalizes from peak trading volumes in the pandemic

#### Evolution of revenue breakdown division



Source: B3's financial reports.

The quantity of individual investors in B3's equity division increased 26% and reached 4.2 million in the quarter, primarily as a result of new investors that purchased Brazilian depository receipts of the online credit card company Nu Pagamentos S.A. Without considering this public offering, number of investors in the quarter would have grown between 4%-5%. Higher volume of bank funding instruments, corporate debt and sovereign bonds boosted the OTC division that increased earnings by 2.6% in the quarter.

Contraction in vehicles sales in Q4 2021 negatively impacted B3's revenue from infrastructure for financing that fell 7.7% in the quarter and 12.7% year-over-year earlier. These earnings accounted for 5% of total revenue in the fourth quarter. Revenue from the technology and data services segment (15% of total revenue) went up by 7.6% in the quarter (21.5% against Q4 2020), driven by an increase in customers using this service, annual adjustments, as well as increase in co-location revenues.

**Strong performance continues to support the entity's Ba1 rating.** B3 reported a strong pre-tax income of BRL1.5 billion in Q4 2021. Pre-tax margin remained at a high level of 59.7%, although slightly below 62.5% in Q3 2021 and 61.7% in Q4 2020. B3 reported record high BRL6.3 billion pre-tax income for the entire year of 2021, with a high pre-tax margin of 62.7%. Pre-tax margins have been consistently above 50% since Q4 2019. Adjusted expenses were up 13% in the quarter and over the same period a year earlier, driven by a rise in personnel expenses due to annual adjustment of wages that was fully reflected in the quarter, as well as increased data processing expenses.

**Leverage guidance was lowered to 1.6x EBITDA.** In Q4 2021, B3 revised downward its leverage guidance, to reflect the plan to use part of the proceeds of its \$700 million Sustainability Linked Bond (SLB) issued in Q3 2021 to repay debentures maturing in 2022, which, in turn, improves its credit flexibility profile. In Q3 2021, B3's leverage increased to 2.0x EBITDA as a result of the bond issuance. We consider B3's indebtedness to be manageable. EBITDA relative to interest expense, as calculated by Moody's, stood at 11.1x in 2021.

For the fiscal year of 2021, B3's total dividend payout, including interest on capital and share buyback, amounted to BRL6.0 billion, of which BRL789.3 million of cash dividend to be paid in April 2022. In 2021, return to shareholders reached 127% of IFRS net income. However, the high dividend payment in 2021 pressured B3's cash position reducing cash coverage, measured by Moody's ratio of retained cash flow (net of dividends) minus capex as a percentage of total debt, to 1.8% at the end of 2021, well below 27.7% in 2020. Guidance for net income payout in 2022 was adjusted to 110%-140%. We expect a recovery in the company's cash flow coverage during 2022.

The company plans to pursue operational growth in both its core business and non-core activities. The 2022 guidance for investment in core businesses stands between BRL200 million and BRL250 million, versus BRL327 million spent in 2021. Guidance for investment and expenses beyond the core business stands between BRL380 million and BRL440 million, versus BRL255 million spent in 2021. We expect B3's cash flow generation to remain strong in 2022 and, consequently, B3's leverage and coverage are likely to stay at levels commensurate with its Ba1 rating.

**B3 has a strategy to diversify its revenue base with less market sensitive activities.** In Q4 2021, B3 acquired Neoway for BRL1.8 billion, a leading Latin American focused data analytics and artificial intelligence company offering solutions for sales and marketing, credit, compliance, loss prevention, and legal analysis. The acquisition followed other investments in data and technology and is consistent with B3's strategic plan to increase revenue from less market-sensitive technology, data and services, which represented 15% of total revenues at the end of 2021.

On 19 October, B3 also announced that it had contributed with \$10 million in a fundraising for a cloud-based technology company that provides a processing platform for banks, payment companies and financial market infrastructure companies called Pismo Holdings. Like other market infrastructure providers globally, B3 plans to migrate its capabilities to a cloud-based infrastructure. This migration is a mid-to-long term project expected to take between five and ten years.

**Rating Considerations.** B3's Ba1 issuer rating is supported by its vertical integration and dominant position in its target markets as well as its diverse operations and strong operating leverage. B3 also operates Brazil's large and systemically important central counterparty clearing house (CCP) and depository. Ratings are positioned one notch above the Government of Brazil's rating (Ba2

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

stable), reflecting the fact that B3 has a strong credit linkage to Brazilian sovereign risk through its collateral holdings of government securities and the geographical concentration of its operations.

### Moody's related publications

- » [B3 S.A. - Brasil, Bolsa, Balcao: Higher leverage and flat revenues with derivatives offsetting fall in equity trading volumes](#), November 2021
- » [B3 S.A. - Brasil, Bolsa, Balcao: Brazilian regulator's approval of new derivatives registration firm threatens to lower B3's registration volume](#), November 2021
- » [B3 S.A. - Brasil, Bolsa, Balcao: Neoway acquisition expands B3's data product offering and diversifies revenue](#), October 2021
- » [B3 S.A. - Brasil, Bolsa, Balcao: Strong revenues, high margins in Q2 2021 but volumes tail off from last quarters' highs](#), August 2021
- » [B3 S.A. - Brasil, Bolsa, Balcao: Core business drives strong quarter results but dividend payments lower cash coverage](#), March 2021

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

**Contacts**

Ceres Lisboa +55.11.3043.7317  
Associate Managing  
Director  
ceres.lisboa@moodys.com

**CLIENT SERVICES**

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454