

# Y 2021 Earnings Call

## Company Participants

- Filipe Oliveira, Strategy, M&A, FP&A and Performance Improvement Director
- Gustavo Henrique Santos De Sousa, Chief Executive Officer, Chief Financial & Investor Relations Officer and Member of Board of Executive Officers

## Other Participants

- Analyst
- Mario Pierry
- Tito Labarta

## Presentation

### Operator

Good morning everyone, and thank you for waiting. Welcome to Cielo First quarter of 2021 Results Conference Call. With us here today we have Mr.Gustavo Sousa; Filipe Oliveira; Daniel Diniz, and all the company's executive officers.

This event is being recorded and also is being broadcast live via webcast and maybe accessed through Cielo's website at <http://ri.cielo.com.br/en>, where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Remember that the participants of the webcast will be able to register via website, questions to Cielo that will be answered soon.

Before proceeding let me mention that forward-looking statements are based on the believes and assumptions of Cielo's management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand the conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Based on the presentation published this morning on the Company's website, this conference call is open exclusively for questions and answers, which will be preceded by a message from the CEO of the Company, Mr.Gustavo Sousa. (Operator Instructions) Questions will be taken in the order they are received. We do ask that, when you pose your question that you pick up your handset to provide optimum sound quality

I will now pass it to Mr.Gustavo Sousa for opening remarks.

## **Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Hello, everyone. Thank you for participating. Before we open the Q&A session, I'll make a few comments. I would like to remind everyone that our presentation and audio presentation this material is posted in our website. So it's available for everyone. But before we go into the Q&A session I'll make some comment. So let's start with our results.

Our net income reached BRL970 million in 2021, practically double of the net income that we saw on the previous year. In the fourth quarter, we had a net income of BRL337 million, a significant growth over the previous quarter, especially considering the context of pressure and financial expenses. This is the fifth consecutive quarter of annual growth in net income. Once again, net income growth was driven by operating performance.

In acquiring our core business, we saw accelerated volume growth and important advance in terms of Receba Rapido penetration. It is rolled our expansion in revenues. Expenses remained under control. We have been able to deliver practically stable expenses even in a context of reinvestments to transform the operation. The ratio between total expenses and TPV reached the lowest level in Cielo's history.

The good performance in the different business units is translated into a higher consolidated cash generation. EBITDA expansion was strong enough to more than compensate the higher pressure on financial expenses in a context of a higher SELIC rate. EBITDA reached its highest level since the first quarter of 2019.

Now, talking about strategy in operations. As you can see in our earnings presentation, we have advanced in many fronts. We restructured our commercial positioning with emphasis on our own sales force. We significantly increased the penetration of the prepayment in SMB space with the highlights for Receba Rapido. We reviewed the entire cost structure of the company, which today places Cielo among the most efficient acquirers in the market.

We strongly improved customer service, logistics, and operations. To- date more than 80% of terminals are installed within two business days. We optimize our asset portfolio with divestments that are allowing us to focus all of our energy in the business and customer segments that are most relevant to Cielo. This allows us to better serve our customers, further focus on the business that really matter, optimize financial resources and enabled the company to look ahead.

Despite of all of the improvements we present today we continue to strive for excellence in our services. Once again, I would like to take this opportunity to thank our shareholders for their trust and our employees for their dedication.

Thank you for participating, and we'll now open the Q&A session.

## **Questions And Answers**

## Operator

(Question And Answer)

Thank you Mr.Gustavo. This call is now open for questions. (Operator Instructions) Our first question comes from Mario with Bank of America.

### Q - Mario Pierry {BIO 1505554 <GO>}

Hi everybody, good morning. Let me ask few questions, please. One, Gustavo, is related to the competitive environment, right, because when I look at your revenue wheels and you show on your presentation, you barely passed on any price increases when I look on a year-over-year basis? However, you continue to lose market share, especially the SMB segment and I'm focusing on the SMB segment, right? When I look at Page 8 of your presentation, it seems like the active merchants in the SMB segment is declining.

So I wanted to understand is how are you seeing this competitive environment? And why wouldn't you try to maintain your prices stable and try to regain some market share, is that part of your thinking? Or are you going to try to pass on these higher financial expenses to your clients?

And then I have a second question afterwards.

### A - Gustavo Henrique Santos De Sousa {BIO 17683157 <GO>}

Mario, Gustavo here. Thank you for your question. You got cut off a little bit. So if I don't answer any aspect of what you have asked, please follow up. Okay?

So specifically on higher funding costs for Brazilian companies as a whole, this is a new reality, and we started the year already transferring this new funding cost to our entire product portfolio. Based on what we have been hearing in public comments from the competition, the industry is doing the same thing. Yes, you are correct. You haven't seen that on the fourth quarter, but this is something that we have initiated in the beginning of this year.

Regarding your comments on a reduction in client base, yes, we have seen a reduction on the SMB client base. This is not what we want. We do want to grow there. We are still facing strong competition in this segment. However, we have other metrics related to this client segment. We have increased the penetration of Receba Rapido, we have expanded TPV. So we are focusing in gaining clients, but also maintaining profitable clients, that's very important for us. So I don't think there is that one thing excludes the other but it is hard to find the perfect intersection of having profitable clients and expanding client base at the same time.

It is still our goal, our focus for 2022, and our challenge is to regain share in SMBs and we believe we have the right team, the right incentives for the new commercial team that we initiated early last year to face this challenge. Okay, Mario? And try not to meet any point

that you have laid on us unanswered, I'll ask Filipe to make some comments on the use, on the used component for Cielo. Please, Filipe.

**A - Filipe Oliveira** {BIO 16681552 <GO>}

Yeah. Hi, Mari. So, if you have the comparison, the year-to-year comparison, you see three elements that are compensating each other there. So the first one is increasing taxes that Cielo started provisioning in the beginning of 2021 and that contributes negatively for most of the negative impact. But when you look at pricing for the second half, which is in our view metrics that are demonstrating the health and the structural health of the portfolio, they contributed positively year-over-year.

The third element that you see is a matter of mix, client mix specifically. What we saw during the course of the year is that while we negotiated some of the large accounts, we lost some of those accounts and some of those started coming back after a few months, because they saw that Cielo's service and quality of its products were superior than competitors that they left for.

So, when you see those two elements together, you see that in the end of the year, the mix of the large accounts started growing again, so that's the major part of this decrease in revenue units. We don't see that, as structure we see that as a good thing, because there's incremental volume that's coming from large accounts that still dilute in the revenues of the SMB is healthy and is generating incremental margins.

We see a similar message, when we look at the quarter-on-quarter comparison except of course for the taxes, because the taxes happening in the beginning of the year, but it's basically a message we see pricing (inaudible) contributing positively on quarter-over-quarter. You see the client mix contributed negatively, but in this quarter-over-quarter you don't have the ISS taxes. You only have those in the year-over-year.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. No that's clear. But let me follow up on this here. When you mentioned right that the competition remains intense and that's why you're losing share, or your client base is declining, does it mean that the competition is not passing on the higher prices? Because again, my perception here is what you are doing? Should be in line with your competitor? And still you continue to you continue to move share. So, if there's something that you still need to fix is the consumer experience or the customer service, what I don't get is this why are you continuing to lose share in the SMB segment?

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Mario, what we saw recently and I'm referring to the last month of 2021 was a behavior from the competition with a number of promotions of combos that offered reduced prices for a limited period in our calculations, some of those offers weren't attracted for us, we didn't try to match them.

So, we are always going to be looking at the competition and seeing what they're offering but also seeking the best profitability for Cielo. This is what we saw at the end of the year.

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However, more recently, I have heard public comments from the competition where they say that they have no alternative but to transfer their high-yield funding costs to their client base, which is something that we are doing as well.

So the combination of those effects are to be seen in 2021. Okay? So at the end to be seen during 2022, at the end of 2021 we saw very aggressive competition in terms of some price promotions, we didn't follow that. We started the year transferring those higher funding costs. And we believe the competition is doing the same thing based on what they had been announcing. Okay?

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Now that's clear. And then my second question here, Gustavo, I was a bit surprised on your volumes to see debit card volumes decline 1% year-on-year. And I know, right, like the mix during the pandemic had shifted towards debit cards. So it's natural for debit card transactions to be decelerating. But a negative growth surprised me, especially when I look at Cateno in a debit card transactions, the Cateno were up 7%. So can you help me understand what's going on in debit card transactions at Cielo Brazil?

**A - Filipe Oliveira** {BIO 16681552 <GO>}

Hi Mario. Yes. One of the facts that we see is that, this is mostly due to a baseline problem, right, when comparison to the last year. During 2021, we saw that the pandemic really boosted the debit mix in the overall economy. And what we're seeing now is a normalization of that mix. So, when we compare, year-to-year really see that effect that effect that it looks like the debit suffering more than credit but it's actually just a correction to the normal course of things. That's the way we see it, but then it was of course an exception that you still saw growth on debits, but nevertheless you see a growth that smaller than credit. So, if you guys know version of mix, that's what we've been seeing here.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Do you think that picks is having a negative effect on your own debit card transactions overall in Brazil?

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

We don't see any material evidence yet Mario. We believe it could be the case in the future with some impact, but we don't see any material impact yet.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions) The next question comes from Tito Labarta with Goldman Sachs.

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**Q - Tito Labarta** {BIO 20837559 <GO>}

Hi, good morning. Thank you for the call and taking my question. A couple questions of though, following up on Mario's question on the repricing, in terms of the repricing, which you said, you started. How much room do you have to reprice? I'm just thinking if we look at the industry interest rates for receivables discounting have come down a lot and you compare that to SELIC like spreads have really collapsed over the years, right? I mean, do you -- is there room for spreads to increase? Or do you think spreads kind of remain flattish or could they even be more pressure because of the competitive environment? So even if you're able to reprice you're not able to reprice the full extent of the impact from the higher financial expenses. And how long does it take to reprice entire merchant base? And then I ask the second question after that.

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Tito, thank you for your question. I'm not going to provide a time line for the completion of the repricing movement, okay, because it is very sensitive competitive information for us. The movement has already been initiated, and it is something that shouldn't take long. Okay? I don't see room to increase spreads, but I know that we have to equalize, normalize spread based on the recent funding cost increases that we have seen in Brazil.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Okay, thanks Gustavo. And maybe another follow-up then on the competitive dynamics. In terms of the share that you've lost. You kind of alluded to it, because you weren't willing to match it sort of lower pricing. And do you think it's just that, I mean are you seeing in terms of your client service or like software offerings, how important is that? Or do you think it really is just pricing?

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

I don't think that this reduction in client base is related to client service. I don't think it's related to software that may be offered in a combo in the acquiring business. I have seen very aggressive competition in terms of price promotions and also an increase in the sales forces of the competition. That's what in our radar right now. And right now we are evaluating on how to fight back. But what is very clear for us is that we do want to regain share in SMB, but at the same time preserving profitability for the company.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Thanks, Gustavo. That's helpful. And then my second question was it was more on the cost and expense side, right? So it's a good cost control and expenses. How do we think about that going forward? I think cost will more from Cateno and expenses more at Cielo Brasil, but you think you can maintain cost and expenses under control going forward or there still a lot more investments that you think you need to do to kind of catch up with the competition? If you can help us think about what type of cost and expense growth we can kind of expect from here?

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

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Tito, I'm going to give you a direction in terms of our behavior and attitude and not a guidance, okay? So, and the reason we do not provide a guidance on that is because these efficiencies that we have been extracting, they come really on a daily basis. It's zero base budgeting that we do, and we follow up every week, every month trying to extract efficiencies. If I had a great room for improvement very clear in front of me that would have been already announced, okay? So, it is really a daily grind trying to extract efficiency. So you can expect the same type of behavior and commitment from us. However, I can't point you towards numerical values on that, okay?

**Q - Tito Labarta** {BIO 20837559 <GO>}

Okay. Thanks Gustavo that's helpful. So, I mean, do you think there's room to improve efficiency from here or just kind of keep it relatively stable?

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

I'm going to answer this differently, Tito. There has to be room, okay?

**Q - Tito Labarta** {BIO 20837559 <GO>}

All right. Fair point. Thank you for that comments, Gustavo.

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Thank you.

**Operator**

The next question comes from Antonio with Bank of America.

**Q - Analyst**

Hi guys. Thanks for the question. Just a question on the credit origination. I would like to understand how is our appetite for credits growth raised on receivables and clean credit? Thank you.

**A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Antonio, thank you for the question. Currently, we are reformatting our credit product. So we do not have a next product on credit yet. We are, yes, every participant in the industry is doing analyzing how to act on the new receivable central. And I hope to have a new product shortly and to announce it shortly, okay. But I don't have it yet. I don't have a timeline. We are reformatting our product, okay?

**Q - Tito Labarta** {BIO 20837559 <GO>}

Very clear. Thank you.

**Operator**

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Excuse me. This concludes today's question-and-answer session. I would like to invite Mr.Gustavo Sousa to proceed with his closing remarks. Please go ahead, sir.

## **A - Gustavo Henrique Santos De Sousa** {BIO 17683157 <GO>}

Thank you everyone for their participation, and we do follow up with remaining questions with our IR team. Thank you very much. I'll see the next time.

## **Operator**

That does conclude Cielo conference call for today. Thank you very much for your participation and have a nice day.

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