

Q3 2015 Earnings Call

Company Participants

- Clovis Poggetti, CFO & Director-Investor Relations
- Rômulo de Mello Dias, Chief Executive Officer

Other Participants

- Alexandre Spada, Analyst
- Carlos Macedo, Analyst
- Craig J. Maurer, Analyst
- Frederic de Mariz, Analyst
- Gerardus Vos, Analyst
- Tito Labarta, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to Cielo's Third Quarter 2015 Results Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Cielo's remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and may be accessed through Cielo's website at www.cielo.com.br/ir 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. Those following the presentation via the webcast may post their questions on our website.

Before proceeding, let me mention that forward statements are based on the beliefs 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 that macroeconomic conditions, industry conditions and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Rômulo de Mello Dias. Mr. Rômulo, you may begin your presentation.

Rômulo de Mello Dias

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Good morning. I'd like to thank you all for joining us today on this conference call in which we will talk about Cielo's results for the third quarter of 2015. Joining me are Clovis Poggetti, CFO and Investor Relations Officer, as well as members of the management, finance and Investor Relations teams.

On page three, we can compare the main highlights of the quarter against the same period of the prior year. Before we start presenting, I would like to remind you that, as presented in the last quarter, this report will also include the consolidation of Cateno's figures for the full quarter, so standard relations will be relevant or near or near comparison.

Cielo's consolidated account net income reached R\$878 million, up 7.4% with a margin of 30%, while Cielo's adjusted net income considering Cateno's cash contribution totaled R\$945 million, up 15.6% year-over-year.

EBITDA was R\$1.4 billion, up 42.2% with a margin of 46.7%. Financial volume totaled R\$137.3 billion, up 6.6%, and excluding the Agro card product, the increase was 5.5%. Net operating revenue reached R\$2.9 billion, an increase of 50.5%.

Next, we will present all the highlights and awards received during the quarter. Cielo was ranked at first in financial service category in the Anuário Época 360° by Época Negócios magazine and first place in Innovation and Corporate Governance overall categories. Cielo held the 11th most valuable brand in Brazil according to the fourth edition of BrandZ ranking by Millward Brown together with WPP.

Cielo was elected the company with the best corporate reputation in the 2015 Ranking Brazil organized by Reputation Dividend. Finally, Cielo came in first place in the Service category of the Estadão Mais award, ranked by the Estado de Sao Paulo Newspaper.

On page four, we present the evolution of the financial volume of credit and debit transactions. Our captured financial volume increased 6.6% year-on-year, reaching R\$137.3 billion. And if you exclude the impact of the Argo product, such growth would be 5.5%.

In the same period, the increasing credit volume was 1.3%, while the debit volume grew 15%. If you exclude the Argo product from the debit volume, the increase would be 12.5%. On quarter-on-quarter basis, the total volume increased 5.9%, with credit volume growing 2.8%, reaching R\$8 billion, while the debit volume grew 10.4%, reaching R\$58 billion.

In the Agro product, which is included in the total amount of debit, financial volume totaled R\$5.7 billion in Q3, an increase of 43% compared to Q3 of last year. This increase is chiefly related to seasonality presented this year in the product in comparison to prior years.

Moving on to page five, we present the number of captured transactions. Cielo registered an increase of 10.2% in Q3 compared to the same period of 2014,

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representing 1.6 billion transactions. Compared to Q2, the number of transactions increased 4.2%.

Regarding operating indicators on page six, we present the number of active points of sales under the criteria of one transaction in the last 30 days and the number of installed POS. Compared to the third quarter of 2014, installed POS base increased 8.9%, reaching 2.1 million units. And compared to the previous quarter, the increase was 1.7%. The share of wireless equipment in Q3 reached 67%. The growth in active points of sales reached 11% year-on-year. In comparison with Q2, the increase was 2.2%.

Now I'd like to hand the call over to Clovis, who will continue with our presentation.

Clovis Poggetti {BIO 16529642 <GO>}

Thank you, Rômulo, and good morning, everyone.

On page seven, in accordance with the model adopted since first quarter this year, we present a frame with the managerial information related to Cielo's business.

Regarding Cielo's consolidated numbers as presented in table one, we can see that the net operating revenue totaled R\$2.9 billion in the quarter, up 50.5% from third quarter last year and 4.4% from second quarter this year. The increase in net revenue is mainly due to the beginning of the consolidation of Cateno's operations as from February 27 and to the effect of the dollar appreciation and the revenues generated in the U.S. subsidiary, Merchant e-Solutions, as well as the ongoing business expansion.

Our total consolidated expenses were R\$1.8 billion in the third quarter this year, 66.8% higher than in the same quarter of 2014, given the consolidation of Cateno, and 8.9% higher compared to second quarter this year due to the increase on cost of the subsidiary Merchant e-Solutions to the impact of dollar appreciation in the quarter and to the continued business expense, and the control with M4U result of an increase on mobile recharge sales.

On table two, we present Cielo's info excluding Cateno and the financial expenses incurred to set the company.

And on table three regarding Cateno, we present the results, including the financial expenses of the debentures issued. As it can be seen if we consider the expense with amortization of R\$96.5 million in the quarter, Cateno contributed negatively with R\$107.5 million to Cielo's consolidated results.

And finally, we also split Cielo Brazil on table four and other subsidiaries, Merchant e-Solutions, M4U and Braspag, on table five so that you can follow the acquiring business in Brazil and also to isolate the impact of exogenous variables to the business, such as exchange rate fluctuations impacting our U.S. subsidiary.

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Regarding Cielo Brazil, it can be noted that the net revenue presented an increase of 8% year on year, total expenses presented an increase of 6.8%, and net income was 21% higher year-on-year. In relation to the total expense per transaction, it was R\$0.52, a reduction of 3.7% compared to the prior year. In relation to the prior quarter, presented an increase of 2%.

Considering the accumulated nine-month figures, it represented R\$0.52 per transaction. And at this time, I would like to remember that we have provided a soft guidance for this indicator, saying it would range between R\$0.49 and R\$0.51 in the year. Already in our last conference call, we pointed out that we would get close to the top of the range at R\$0.51.

Nevertheless, we are facing some headwinds such as the strong deceleration of the economy currently observed, was negatively impacted the number of transactions and the financial volume, as well as extraordinary costs, which total amount in the nine months is R\$27 million and deferred to the increase on allowance for chip and PIN card readers for mobile solutions. Basically, these two factors will drive our total expenses per transaction to something around R\$0.52 in the year.

Regarding the other subsidiaries, we should remember that we had a significant impact from the exchange rate. The average rate in the U.S. dollar in the third quarter was R\$3.54, an increase of 55.6% and 15.1% over the third quarter last year and second quarter this year, respectively.

On page eight, we present Cateno's numbers. As previously done on table on the left in the first column, we present the numbers not considering the amortization. We can name this column Business Result. With this approach, we would have net operating revenue of R\$606 million, total expenses of R\$334 million and net income of R\$195 million.

The accounting number in the second column considers the intangible assets amortization during a 30-year term, resulting in an impact of R\$96.4 million. From this point of view, net income was R\$132 million.

Analyzing the contribution of Cateno to Cielo, after the impact of the financial expenses related to start the new company, we reached a negative result of R\$107.5 million in the quarter as shown in the same column slightly below and also shown in the previous slide. This number comes from a contribution of R\$92 million which corresponds to 70% of the net income, net of financial expense taken by Cielo plus taxes in the amount of R\$199.5 million.

It's important to note, however, that this result is impacted by the intangible assets amortization effect. When we perform the same analysis excluding these effects, that is, somehow in the cash-based direction, we come to figures presented on the table on the right. With this analysis, the net income will be R\$227.9 million. Making the same analysis of Cateno's contribution to Cielo, that is, after the financial expenses, in fact, we reach a negative result of R\$40 million in the quarter.

On the next page, number nine, we highlight how to calculate the Cielo adjusted net profit. Before getting into the details on how, we would like to mention why we are making such an adjustment in our net profit, and this is directly related to difference of Cateno's contribution to Cielo between the traditional accounting methodology and the cash based due to the amortization of intangible assets in the new company.

The adjustment is done considering Cateno's cash contribution, that is, Cielo's net income excluding Cateno and related financial expense that totaled R\$985 million was added to Cateno's cash contribution calculated in the previous slide which was negative R\$40 million in the quarter.

Therefore, Cielo's adjusted net income totaled R\$945 million in the third quarter of 2015, an increase of 15.6% compared to the same period last year.

On page 10, we present the indicators and results from the prepayment of receivables operations. We can see in the table that the prepaid volumes increased 11.6% compared to the third quarter last year and 7.8% compared to the second quarter this year. The amount in the quarter totaled R\$15.5 billion, or 19.4% of total credit volume with credit installments accounting for 66% and regular credit, 34%.

Regarding income from prepayment of receivables, it reached R\$572.5 (sic) [R\$572.4] (15:28) million in the third quarter this year, 31.4% up from the result in the third quarter last year and 16% higher than the previous quarter. The increase is substantially represented by the continued expansion of the prepayment product mentioned above and by higher rates due to higher spreads on the interbank discount rate, as well as the reduction on cost of funding with third parties.

As usual, we also present the managerial analysis of prepaid revenues. In this analysis, as shown in the table, we apply a cost of funding of 104% of CDI in 100% of the financial prepaid volume. Of course, that is similar to what we have when we anticipate our flow of receivables with issuing banks. According to this analysis, managerial result in the quarter was R\$317.3 million, an increase of 32.3% and 2% over third quarter last year and second quarter this year, respectively.

Regarding our financial performance on page 11, we present the EBITDA in both absolute amount and margin. In this quarter, EBITDA totaled R\$1.4 billion, up 42.2% year-over-year. The EBITDA margin was 46.7%, down 2.7 percentage points. When compared with second quarter this year, EBITDA increased 0.4% and the EBITDA margin fell 1.8 percentage points.

On the next page, number 12, we show that Cielo's net consolidated income totaled R\$877.5 million, 7.4% higher than third quarter last year, with a margin of 30%. And finally, if we compare to second quarter this year, net income slightly increased by 0.9%, representing a drop of 1 percentage point in the market.

On page 13, I would like to comment on our current debt, the leverage remaining in the third quarter at 1.8 times the net debt to EBITDA adjusted by the prepayment of

receivables to debt.

Now I will turn the floor back to Rômulo.

Rômulo de Mello Dias

I finish my presentation stating that the macroeconomic scenario is more difficult than we anticipated, impacting our outlook for the year. I'd like to stress that although the macro landscape is even more challenging, we are still confident on company's fundamentals and our long-term strategy defined to keep our leading position and differentiation in the universe of payments.

So here, I conclude my comments and thank you for your attention. Now we are ready to take your questions. Operator, please?

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session Our first question comes from Frederic de Mariz with UBS.

Q - Frederic de Mariz {BIO 15383052 <GO>}

Thank you. Good morning, everyone. Thank you for the conference call. A couple of questions on my side. The first one is the usual one on pricing. When we look at the MDR on the acquiring side and we do some estimates, it looks like it went down in the quarter. And I understand you had a big growth on the Agro business product. Excluding that mix impact, just wanted to hear your thoughts and comments on any potential pressure from competition, anything you're seeing on the pricing side by segment, so excluding mix impact.

And then the second question has to do with OpEx. I know you typically give a cost-to-income guidance for Cielo stand-alone. But it's a bit difficult for us to reconcile it with the overall company. When we think of a more traditional and very basic cost-to-income ratio, we saw that the cost-to-income ratio went up slightly in the quarter. Just wanted to see your thoughts for the next quarters where you see the relation between OpEx and revenues. Thank you.

A - Rômulo de Mello Dias

Frederic, about your first question, the MDR, I would say that we have two issues related. The first one is Agro card as you mentioned. Agro card, as you know, has bigger tickets compared to the regular ones and as well more incentives that you pay to our partners in this quarter. This was one of the reasons why the MDR suffered a little bit.

About the second question, I will ask Clovis to answer. Clovis?

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A - Clovis Poggetti {BIO 16529642 <GO>}

Hi, Frederic. I understand, let's say, your question and the challenge that you all may have taking, let's say, a consolidated point of view. But let's say that for now, we understand that splitting the consolidated figures between, let's say, Cielo ex-Cateno and financial expenses and then Cateno, and then if we got Cielo ex-Cateno also breaking this down between Cielo Brazil and the other subsidiaries, this already helps a lot, okay?

For Cielo Brazil, we already gave the soft guidance. During my speech here, we already addressed this point. For Cateno, we are still - let's say, it's not the right time to talk about the following quarters. As previously done, let's say, in our fourth quarter, in our call regarding the fourth quarter results, we may see what we can discuss regarding the future, okay?

Q - Frederic de Mariz {BIO 15383052 <GO>}

Okay, that's great. That's clear. And just on the previous question, the MDR, so again the Agro, any comments you can make on competition or pressure on the pure pricing?

A - Rômulo de Mello Dias

Yes, there is also - besides the other two points that I mentioned about Agro card, the more incentives that you have to pay to the banks that - which are our partners compared to the last quarter, I would say that also some price competition, which allow also in terms - which provokes, better saying, the reduction in terms of MDR. So, everything together, Agro card plus more incentives plus more competition, it was a mix of factors that produced this difference between the third quarter and the second quarter.

Q - Frederic de Mariz {BIO 15383052 <GO>}

Got you. Thank you very much.

Operator

Our next question comes from Craig Maurer with Autonomous.

Q - Craig J. Maurer {BIO 4162139 <GO>}

Yeah, hi. I was wondering if you could just comment more on the long term. How is the current downturn in Brazil in your view affecting the rate at which people are brought into the banking system, brought into financial services, which could have a long-term impact on secular growth in the country for your business? Thanks.

A - Rômulo de Mello Dias

This secular trend in the short term is suffering because of the economic deceleration. But if you look to the future and you try to analyze what could happen to Brazil compared to other economies, I would say that, for sure, we will continue to increase the penetration.

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But meanwhile - and by meanwhile, I'd say during the next two years - I'll say that we have a challenge in terms of penetration because of the economic acceleration, because of the people are more afraid to lose their jobs. People prefer now to use their debit card in spite of the credit cards, and also other behaviors that are producing lower tickets. People are buying products less expensive that they are used to. So, there are many reasons why the credit card penetration, the perceived penetration is now being stabilized and the consumer or even the electronic payments is suffering because of the economic environment. But I would say that this is happening in the short term. In the long term, in the long run, we are going to be in another situation, a better situation.

Q - Craig J. Maurer {BIO 4162139 <GO>}

Okay. On another topic, First Data was highly promotional in their road show about their ability to gain market share aggressively over the next two years in Brazil. Could you comment on if there's been any change in behavior from them specifically? Thanks.

A - Rômulo de Mello Dias

We respect a lot all the competitors that we have in the market, the incumbents, the new players, so on and so forth. I cannot comment if they are going to reach or not what they are saying in terms of penetration. What I can tell you that we are confident that Cielo, for sure, will continue to be the leader company in this sector.

Q - Craig J. Maurer {BIO 4162139 <GO>}

Okay. Thank you.

Operator

Our next question comes from Gerardus Vos with Barclays.

Q - Gerardus Vos {BIO 3301062 <GO>}

Hi. Thanks for taking my question, just one. Would you be able to provide us with an update on your estimates for the industry growth? I think in the last quarter, you broke it down to 9% to 11%, which still seems a bit high, given the kind of current environment, and I was wondering if you could provide just an update to that. Thank you.

A - Rômulo de Mello Dias

Yes, Gerardus. The soft guidance that we provided for the growth of the industry was done here in November almost one year ago when the situation of Brazil was completely different. Now we are in a completely different scenario because the deterioration of the (26:16) and the expectations about the future or the confidence - of the lack of confidence, everything together is not helping the situation. And when I say it's not helping, it's of course producing much more - people are more concerned about the future, as I just said in my previous comment. In other words, this soft guidance for the industry, even the low of the range, 9%, is a challenged one. Remember that, as I said, this soft guidance was provided almost one year ago.

Yeah?

Q - Gerardus Vos {BIO 3301062 <GO>}

(27:04)

A - Rômulo de Mello Dias

Roberta has just remember me – she's right, and you are right, sorry, that when we said – sorry, we said one year ago 11% to 13%, and we correct to 9% to 11% some months ago. But each day, each month, the situation or the perspective for the economy and also for the electronic payments is becoming worse.

Q - Gerardus Vos {BIO 3301062 <GO>}

Yes, because I believe the 9% to 11% I think was provided at the second quarter call. So, my question was would you be able to provide us an update to those kind of numbers, given the deterioration you just mentioned? Thank you.

A - Rômulo de Mello Dias

Yeah, I would say that I was – if you reach 9% – if you take into consideration only the top three acquirers, you're going to see that the growth was 8.3%, 8.4%. You're not including this number because the smaller acquirers, they don't provide their numbers, I mean, Elavon, First Data and the others.

But I would say that the number is not very different from this one, maybe a little bit higher, of course, because they also have a penetration. They also have a share in this industry. But for sure, considering everybody knows the expectations and deterioration of the economy in Brazil has become worse and worse and worse. I hope that the next year we're going to have – by the end of next year, you're going to have a better scenario for our industry. So in other words, 9% is a challenged one, but probably it's going to be lower.

Q - Gerardus Vos {BIO 3301062 <GO>}

Okay. Thank you.

Operator

Next question, Tito Labarta with Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning, good afternoon. Thanks for the call. My question in terms of your prepayment business, revenues there continue to be pretty healthy. Just wanted to get a sense how you see this evolving going forward. Do you think there's room for this to continue to grow or even remain at these levels? At what point do you think that that could peak? Just wanted to get an update on how you see the prepayment business going forward. Thank you.

A - Clovis Poggetti {BIO 16529642 <GO>}

Okay. Hi, Tito. We are, let's say, still holding that previous soft guidance in terms of – for the prepayment business, we believe something between mid to high teens as something completely sustainable, okay? We may have given, let's say, banks being more restrictive in terms of credit is going to the upper part of this range but still taking the mid to high teens. And very important, as Rômulo always says, don't forget in your analysis that company pays attention and the focus is on the profitability of the product.

Q - Tito Labarta {BIO 20837559 <GO>}

All right. Thank you. So, do you think the levels we're seeing today around 19% or sort of around, (30:22) that's like the highest level you think you can get? So, it'll be at that level and maybe a little bit lower. Is that accurate?

A - Clovis Poggetti {BIO 16529642 <GO>}

Agree. We are already in the top of the range.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay, great. And then maybe just one other follow-up question kind of thinking about cost and more, like, profitability in general. I mean, we've looked at – the EBITDA margin has come down once you incorporate Cateno. I know you said you can give more guidance in the fourth quarter. But how do you think about maybe EBITDA margin on a long term? Any thoughts on that? Any targets on where you think that will end up?

A - Clovis Poggetti {BIO 16529642 <GO>}

Tito, a \$1 billion question. Don't forget it depends on several factors and depends on, let's say, competition, behavior, prices, trends, volumes, how the economy behaves. And to be fair, we are in a scale-based business. We will always do the best. We take the bottom line as our main goal. Company will always take all the necessary measures to protect the bottom line.

A - Rômulo de Mello Dias

Yes. And last but not least, as I like to say, our goal is to increase the EPS, earnings per share. Having said that, we can have – take into consideration Cateno. Cateno does not have the same margin that Cielo has. But there is an EPS – there is an accretion. So, we are not going to pursue the target to have business with EBITDA above a certain level. And even the stand-alone, if of course you should expect for the stand-alone in the coming years a lower margin because of the...

[Foreign Language] (32:15-32:24)

Operator

Please go ahead, sir.

A - Rômulo de Mello Dias

Are you listen us because you - we were informed that our voice could not be listened by the other guys. Now it's working or not?

Operator

Yes, sir, we can hear you fine. You may go ahead. Thank you.

A - Rômulo de Mello Dias

Okay. Because our caller here said that you're - they could not listen us. So, you were saying that in the long run, the EBITDA margin in the stand-alone business, for sure, is going to be lower, but we're not pursuing a percentage-wise margin. We are pursuing growth in terms of EPS. And if there is other business with lower margins that help us, such as Cateno, to reach that growth, we are going to do it.

Q - Tito Labarta {BIO 20837559 <GO>}

Great. Okay. Thank you. That's helpful.

Operator

Next question, Alexandre Spada with Itaú BBA.

Q - Alexandre Spada {BIO 16687974 <GO>}

Hi, gentlemen. Good afternoon. Thanks for taking my question. At some cost, the 4Q of each year normally shows the highest per transaction cost due to some seasonal factors, which seems to make the new per transaction cost guidance given by the company a challenging task for the year. So, my question is, is it possible that Cielo severely reduces its marketing expenses to accomplish the new per transaction guidance, or does the company expect to achieve the new guidance by reducing other types of expenses when we look on a year-over-year basis?

A - Clovis Poggetti {BIO 16529642 <GO>}

Alexandre, we are looking at every single line in our P&L, which means that the soft guidance for the whole year being R\$0.52 means that we still have to work hard, that it is still a challenge, again, in every single line. We are not looking only to one - to marketing or to another point specifically.

A - Rômulo de Mello Dias

And let's not forget that we - when we provide this soft guidance, this soft guidance was provided almost one year ago. We had a different scenario in terms of size, in terms of volume growth, in terms of tickets, in terms also of the projects and the number of transactions. And so, everything together, it will create us, let's say, a more challenged scenario. And we are working hard, very, very hard to deliver what we've said.

And this for us is a kind of DNA that we have in our company because we are not - we are never happy with the targets or with the numbers, with the performance that we are having. So, every single day, we need to take a look in all the expenses, as Clovis said, and to see what can be done, and meaning, in a challenging scenario such as the one that we are living in Brazil right now.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thank you. And if you allow me another question, you mentioned in the Portuguese conference call that the mortality of merchants is on the rise because of this difficult macro environment. But at the same time, the number of active merchants that you report has been growing consistently. So, my question is, how do we - how can we compare the net MDR paid by those guys that are dying to the net MDR paid by those guys that are being added to your merchant base?

A - Rômulo de Mello Dias

There's a mix trend. The new merchants that we are capturing, the affiliation, as we call in Brazil, of course, we are talking about merchants which, at the end of the day, are much smaller compared to the legacy.

Having said that, the mortality of the merchants are also - they can come from the new affiliation, from the new Safra, from the new vintage that you're having, and as well from the legacy. So, who is, let's say, dying more? The lower companies, they're companies that are in the entry level of dollar breakdown.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Let me try to put the question another way then. Let's say one restaurant shuts down and another restaurant is open at the very same location two months after that. How does the MDR of those two restaurants should compare? I'm just wondering if you have been affiliating merchants, of course, when you compare on an apples-to-apples basis, at a higher or lower MDR than the guys who are shutting down.

A - Rômulo de Mello Dias

It depends on the size of the restaurant.

Q - Alexandre Spada {BIO 16687974 <GO>}

Yes, I mean, if it's the same place, probably assuming that it's about the same size.

A - Rômulo de Mello Dias

Should be the same MDR.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thank you.

Operator

Our next question comes from Carlos Macedo with Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, Rômulo, Clovis, Roberta, everyone. A couple of questions, both I'd like to focus on the rental business, the POS terminals. Can you give us some color on the trends there? We understand that competition will tend to (38:32) You mentioned in the past in the Investor Day here in New York, they expect that business to be where the focus of competition will be. If you could give us any indication on how you expect that to happen or if you're seeing that happening to some degree already, given that you already - that there's been some cost acquiring already, given the latest changes in regulation from the Central Bank.

Second question also on that, the biggest CapEx that you have is on POS terminals. The real devalued significantly. Can you give us an outlook for CapEx over the next few years, what you expect to do, how much do you expect to spend, and if that will, through depreciation, have an impact on your bottom line eventually? Thank you.

A - Rômulo de Mello Dias

About your first question, rental business, GPRS, the wireless terminal, reached 67% penetration, which allow us to charge more, but for the merchant is much better compared to the dial because they have a better service and they don't pay the telecom bill.

About the competition, we are suffering as well in this line because many of the merchants that - many of the acquirers that are challenging us, they are more aggressive on price or even are not adjusting by inflation or providing more discounts so on and so forth.

And in terms of regulation, about - if I understood your question, are you talking about this line or generally speaking?

Q - Carlos Macedo {BIO 15158925 <GO>}

No, no, just that regulation as you're going across acquire, you're going to - the exclusivities and some of the networks are going to go away. So, eventually, you're going to have more competition.

A - Rômulo de Mello Dias

Yes. In terms of regulation about the end of preferred agreements, we have a project called in the industry Multiva, (40:29) which is already in place. By the end of this month, 200,000 merchants will be ready to capture Elo, AmEx and InterCard. And, of course, this kind of regulation and other measures would affect a little bit the rental business.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Does it mean that because – just so I get an idea, are these merchants that were merchants that were using all – that were using both Cielo and Rede and Santander, or is these merchants that were only using Cielo are now will be able to capture all cards through Cielo?

A - Rômulo de Mello Dias

Yes, we have – there is a mix, even though that will begin, let's say, as you call with the (41:18) But at the end of the day, everybody – all the merchants will have the same access to all the possibilities that they have. Let's remember that some of them will prefer to work with two or three companies, usually two companies, because of the fact that they yearn to have a big cut and as well because they cannot live with just one POS. But at the end of the day, as I said, this is going to happen and will affect the business not very much but a little bit.

Q - Carlos Macedo {BIO 15158925 <GO>}

So, thank you, Rômulo. On the CapEx...

A - Rômulo de Mello Dias

But Clovis will make an additional comment.

A - Clovis Poggetti {BIO 16529642 <GO>}

Hi, Carlos. With regard to the FX, remember in my speech, I mentioned some external factors. So, you are right, the FX devaluation hit us somehow, okay? Given the fact that if we have a certain number of POSs to buy, and the POS is dollars – follows the dollar – is a dollar-based price, dollar going up, we pay more. Of course, that's not 100% of the FX variation that hits the price of the POS because then we enter into a negotiation process. But in certain points, we are hit, okay, increasing the depreciation in the year. Don't forget that we depreciate our POS in a three-year period, so somehow, also, this helps to normalize the effect in a couple of years. And...

A - Rômulo de Mello Dias

Before – if you allow me, Clovis. FX, of course, affects us in terms of when you buy POS, but it's not something that affects 100%, because we are the number one in terms of buyers. We are the number one. And also because we have power to negotiate with them. And also, and last but not least, there are some parts that are not completely related to FX. So, I'm not saying that FX does not affect FX and affects a lot, but it's not something that is okay. The dollar goes to R\$2 to R\$4 and the price in real is 100% more. It's not like this.

A - Clovis Poggetti {BIO 16529642 <GO>}

And my last comment would be we are still not guiding for 2016 and the following years. For this, I ask you to wait our next call, please.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thanks for this, Rômulo. Just to follow up then, given that, even though the pass-through isn't 100% - and thanks for clearing that up - the real did devalue a lot and you buy a lot of terminals, of course. And the cash - the additional cash you'd have to spend to buy the terminals goes up. Does this change anything your plans to amortization the debt in the schedule that you provided previously?

A - Rômulo de Mello Dias

No, for the R\$500 million? (44:32)

Q - Carlos Macedo {BIO 15158925 <GO>}

Yeah, for the amortizing debt every year, single apportion.

A - Rômulo de Mello Dias

No, I thought that you're talking about the soft guidance that we provide for the CapEx. But for debt, no.

Q - Carlos Macedo {BIO 15158925 <GO>}

Amortization of the debt.

A - Rômulo de Mello Dias

No, no, no, we don't have any need in terms of additional debt. And by the way, we receive a lot of proposals to fund or to finance Cielo. The flight to quality that usually goes to big banks when the price (45:04) happens is also helping us in this regard because Cielo's considered a good credit company in terms of quality. And the banks prefer to lend to us than in spite of lending to other companies, which is good, but also which is also bad because the economy's suffering. And if the credit does not grow, at the end of the day, indirectly, we will be suffering because of the credit, a lower credit level.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thanks. Thanks, both of you, for the answers. Thank you.

Operator

This concludes today's question and answer session. I'd like to invite Mr. Rômulo de Mello Dias to proceed with his closing statement. Please go ahead, sir.

A - Rômulo de Mello Dias

Thank you all for joining us in this conference call. And as usual, we are here to answer additional questions that you may have. Thank you and have a nice day.

Operator

That does conclude Cielo's audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

FINAL

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