

## Q1 2016 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 Jared Maurer, Analyst
- Gerardus Vos, Analyst
- Jorge Kuri, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, everyone, and thank you for waiting. Welcome to Cielo's First Quarter 2016 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](http://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-looking 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 operating 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 would talk about Cielo's results for the first quarter of 2016. Joining me are Clovis Poggetti, CFO and Investor Relations Officer as well as members of the management, finance and Investor Relations team.

On page three, we can see the highlights of the quarter compared to the same period last year. Our Cielo consolidated net operating revenue totally R\$3 billion, an increase of almost 30% compared to Q1. EBITDA was R\$1.4 billion, 18% increase compared to Q1 of last year, with EBITDA margin of 46%. Consolidated net income reached R\$995 million, an increase of 9% compared to Q1 of last year with a margin of 33%.

Some highlights of our most relevant business. Regarding Cielo Brazil, the financial volume totally R\$140 billion, an increase of 10% compared to Q1 of last year, and the purchase of receivables operation had accounting result of R\$623 million, a 35% increase compared to Q1 of last year, reaching 20% of the credit financial volume.

The Cateno's net revenue increased 10% to almost R\$600 million in Q1, the comparison in this case considers their pro forma basis, meaning three months of operation in 2015. The Cateno's EBITDA margin was 44%, an increase of almost 3 points in relation to Q1 of last year.

With regards to the other highlights, I'd like to highlight that our sustainability report has just been published, and it's available for consultation on our Investor Relations website (3:50) on the subject of sustainability, we integrate the RobecoSAM Sustainability Yearbook in 2016, one of the most important publications on sustainability of the corporate work (4:04) the company that has focused (4:06) efforts to engage employees, including the subsidiaries regarding the topic, also an innovation that I'm excited to share with you is the Cielo LIO.

On page four, represent concept we seek to bring to Brazilian market, the IPOS, integrated-point-of-sales of product unique here. Cielo LIO was set to create not only an innovative platform (4:33). It's true because the possibilities are endless with the wide potential to change dramatically the relationship among merchants and its customers. It's an open platform to developers, enabling collaborative innovation, customization of sales, experience with business control and management functionalities and applications.

We are creating the market for a need not yet pursued by the retail, Cielo LIO is an outcome from what Cielo has strongly been doing over the last years, take into account domestic and cross borders dynamics of the industry.

This is a real brainstorming landscape, (5:16) is our keystone and from this we are creating a new market with a purpose to evoke the industry and open the path for the retail. The platform is fully developed by us, from hardware to software to meet the needs of the Brazilian retail market and is highly scalable. To name a few of their advantage, I would say autonomy, flexibility and speed, time to market that it brings.

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(5:46) that merchant's experience for certain payments, like it is truly different from all industry is aware of. It was (5:52) our target, how to make this experience a totally friendly and intuitive for our customers who are the keystone of all the process. As can be seen on the slide, main advantages (6:07) of Cielo LIO. The operating system is ours, Cielo OS. We have developed partnerships with Linx, NCR, and VTEX to provide their solutions at Cielo LIO through Cielo Store, marketplace of applications tailored (6:23) for customer. Also Cielo LIO will enable the creation of catalog of products and services, the registration of orders with barcode reading through the integrated camera, the order management of tables and accounts division through the integrated calculator, the store inventory control, the sending digital vouchers, the statement by period concentration (6:45) and the online service among others.

Our expectation is to reach 50,000 units by the end of this year and 1 million in the next five years. We are currently taking orders, pre-order and by the end of May, the first platforms will be delivered.

I would now give the floor to Clovis Poggetti, who will continue the presentation.

**Clovis Poggetti** {BIO 16529642 <GO>}

Thank you, Rômulo and good morning everyone.

Moving on to page five, we present the frame with information to monitor Cielo's businesses. The information about Cielo consolidated presented in table one shows that the net operating revenue in the quarter totaled R\$3 billion, 30% higher than in the first quarter last year. The increase in net income is mainly related to the start of Cateno's operations consolidated as from February 27 last year, which means the basis of comparison has just one month of revenues and also to the continuous expansion of Cielo business and to the depreciation of the dollar in revenues generated in the U.S. the Merchant e-Solutions. Regarding the fourth quarter last year, revenue decreased by 0.3%. The retraction is related to the seasonality of the business in the fourth quarter due to additional Christmas sales.

Our total Cielo consolidated expenditure was R\$1.9 million in the first quarter, 43% higher than the same quarter last year. And the main offender in this comparison was the consolidation of Cateno is pending. (8:29) In relation to the fourth quarter last year, the amount is 5% lower mainly due to the seasonality of the business, due to Christmas that impacts the two most important business Cielo Brazil and Cateno. And finally, we have our consolidated net income, which totaled R\$995 million, 9.2% higher than first quarter last year, with a margin of 32.7%, down 6 percentage points. And when compared to the fourth quarter last year, profit increased by 16.7%, and the tables will be discussed in the next slide.

Thus, let's move on to page six. On this page, I would like to discuss the table for Cielo Brazil. But before let's check the evolution of the main drivers of this business. The capital financial volume presented, in comparison with the first quarter last year, a growth of 10.2% reaching R\$140 billion. Without considering the product Agro, such a growth would

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be 9.1%. In the breakdown by product, credit growth was 5% and debit was 17%. With respect to the previous quarter, the total volume decreased 9.8%, and excluding Agro reduced 9.3%. By product, the reductions were similar, 9.5% in credit and 10% in debit.

Regarding the POS terminals, the bases grew 3% compared to the first quarter of last year and the increase in wireless terminals was approximately 5 percentage points. Compared to the fourth quarter, the base (10:21) fell by 3% mainly as a result of the current economic scenario reflected in a lower number of affiliation and a higher number of terminal returns. Finally, the operation of purchase of receivables, another (10:38) important lever for Cielo Brazil. The purchase of receivables volume increased by 8% compared to the first quarter last year, reaching the amount of R\$16 billion, representing 20% of the credit volume.

The accounting result of purchase of receivables pro rata temporis, net of funding costs, and the PIS and COFINS on financial revenues increased 34.7% to R\$623.4 million in first quarter this year compared to the same quarter last year. In relation to the fourth quarter, the volume decreased 8%, which is explained by the seasonality due to the Christmas, but the result increased by 3.7%. Having discussed about the behavior of the levers of Cielo Brazil business, let's analyze its performance.

Net revenue increased 7.3% to R\$1.8 billion in the first quarter this year. The increase is related to the higher financial volume captured due to the continuous expansion of business, partially offset by a decrease in revenue yield that was 1.31% in the quarter compared to 1.34% in the first quarter of last year. Regarding the fourth quarter, the Cielo Brazil net revenue increased 1.9%. The growth is related to the increase of 15 basis points in the revenue yield when compared to the fourth quarter, which was 1.16%. This increase occurred because several factors impacted negatively net income, atypically in the fourth quarter of last year.

Speaking now of total spending. It increased 7.2% to R\$817 million in the quarter compared to the same period of 2015. This increase was primarily due to higher financial volume captured and largest number of transactions. In relation to the fourth quarter, the total expense decreased 11.7%, mainly due to lower financial volume captured and fewer transactions. And finally, we have this Cielo Brazil net income, which reached R\$1.1 billion in the first quarter, increasing 19.6% and 17.7% compared to the first quarter and fourth quarter last year respectively.

On page seven, we discuss the performance of Cateno. In the first table, we present the comparison considering the pro forma first quarter of last year, meaning three months of operation in 2015. Net revenue of Cateno increased 10% to R\$593 million in the first quarter. The increase is mainly related to the increase in volume capture in the Ourocard arrangement.

Regarding the fourth quarter, there was a reduction of 9.1%, mainly due to reduced financial volume as a consequence of Christmas seasonality. Total expenditure excluding amortization increased by 4.6% to R\$332.7 million, mainly related to the continued expansion of Ourocard arrangement, higher capture volume and more cards issue.

Regarding the fourth quarter, the total expenditure of Cateno, excluding depreciation decreased by 6.9% impacted by seasonality brought by Christmas in the fourth quarter.

Finally, net income of Cateno was R\$127.5 million, an increase of 40.2% compared to the first quarter last year. In relation to the fourth quarter, net income reduced 14%. It is important to note that in Cateno there is amortization of intangible assets for the period of 30 years, representing R\$96.4 million per quarter. In the figures presented in the second table, amortization is not initially considered, creating what we call business result.

In this view, the net income in the quarter was R\$191 million, it will be the basis for the analysis of the contribution in the cash analysis to Cielo. In the accounting column, the net income already presented R\$127.5 million is the starting point for the analysis of Cateno's contribution to Cielo after impact of financial expenses, related to the creation of the new company.

As we can observe, there is a negative contribution of R\$101 million in the quarter. This number comes from a R\$89.2 million contribution, representing 70% of net income, net of financial expenses contracted by Cielo after tax effect in the amount of R\$190 million. Similarly but excluding only (15:36) amortization, the cash basis, as shown in the final column, the contribution of Cateno to Cielo after the impact of financial expenses is negative R\$33.2 million.

On the next slide number eight, the current debt of Cielo is presented. The company's leverage decreased to 1.4 times net debt to EBITDA adjusted for purchase of receivables revenue. Confirming here, the strong cash generation capacity that the company has. It is important to mention a subsequent fact, which was the payment of R\$1.5 billion in principal, and R\$300 million in interest related to the public debentures which happened in April, considering such information, the leverage ratio reduced to 1.2 times.

Now, I would like to hand the call back to Rômulo.

## **Rômulo de Mello Dias**

To end the presentation on slide nine, we present the evolution of the guidance released early this year. With respect to our understanding of the evolution of the credit and debit financial volume for the industry, we remain confident in the guidance for growth between 5.5% and 7.5%. We cannot refer to the quarter situation, because not all participants have released information.

We reinforce here (17:01) the comment that Cielo should grow below this range. In the first quarter, our volume growth was higher than expected, but should not be considered at sustainable level, because we know that some of the larger retail accounts, that we have lost in recent negotiations, have not yet migrated volume.

Besides the reduction in the financial volume, there is also the Cielo Brazil revenue yield, that is the net revenue divided by the financial volume. The expectation for this year is that it remains, is likely comparable to what was presented in 2015. This confirms what I

said in the conference for the fourth quarter results, that the quarter number wasn't a good proxy for 2016.

With regard to the cost of Cielo Brazil and Cateno jointly, after eliminating the impact of subsidiaries via interest equity, growth in Q1 compared to Q1 of last year was 5.9% within our guidance, despite the captured financial volume was well above our estimates.

And finally, regarding the CapEx in terminals, we made purchase in the quarter of R\$47 million. To this indicator we are following in detail, the impact of external factors such as economic situation, which has caused an increasing mortality of the small retailers and the implementation of the Multivan project. It's worth remembering here that the investment of R\$450 million also includes expenditures related to Cielo LIO platform. It's still (18:40) about macroeconomic landscape, I would like to state that, it remains challenging, given the uncertainty of the present moment, we maintain caution until we have more clarity of what is to come. And as I have said, we are accelerating but reduced speed.

Despite the negative scenario, we maintain our focus on projects that consolidate our leadership position and pave the way for the future of Cielo. We keep on doing everything is possible to remain growing and Cielo LIO is a tangible example of this.

So, I conclude my comments and thank you for your attention. Now, we wait to the questions of you. Operator, please.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Jorge Kuri with Morgan Stanley.

#### Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning everyone, and congrats on the results. Two questions if I may. First, Rômulo, could you expand on the comments you made just now about first quarter volume growth, not sustainable the rest of year, because you still need to see the migration of merchants that you've lost. Can you give us a little bit more color exactly on what you mean, you're losing merchants, is there a particular player that's winning merchants, are you losing them because they were not as profitable as you thought? Just give us a little more color on that.

And then the second question which I'm afraid won't (20:36) have an answer, is your volumes were up 10%, your revenues were up 7%. I know that you don't disclose pricing, but I'm assuming POS continues to do better than acquiring. So, my guess is that MDRs probably had a dip in the first quarter. Is there anything that you can comment on where pricing is on the industry or particularly for you? Thank you.

#### A - Rômulo de Mello Dias

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Thank you, Jorge for your comment and your questions. About your first one, regarding the first quarter, as I say that we think the volume is not sustainable. There are two reasons for that. First one is related to macroeconomic situation and the second related to more competitions and the number of clients that we lost in April, and some of that we lost in March and February, but the migration didn't occur so far. So, in other words, some competitors that you have are more aggressive in terms of price, because they are more concerned about share. And as you know we are always trying to pursue profitability and not share per se.

Regarding the second question, you're right, when you compare the performance of the total sales volume and 10% against 7% in revenues. You're right, when you say that POS is better than acquiring, because the competition or the reduction of the price that you are facing is occurring more in MDR when compared to POS.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

All right. Thank you.

**A - Rômulo de Mello Dias**

Any additional color?

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Well, I mean, I was really hoping to get a little bit more color on exactly what level of discounts you're seeing from your competitors, what type of business you're losing, is this something you're going to see throughout the year? Is it manageable? Do you think, it's getting a little bit out of hand? Is it anyone in particular? Just a little bit more color if possible.

**A - Rômulo de Mello Dias**

Yeah. What I can tell you is that some clients that we are losing, we don't understand what our competitors are doing because in our numbers, in our calculations and you have many metrics to know. For each client, we have a P&L. And even if we don't include the fully dilutive cost, there are some clients that we're losing, even with marginal costs, that we don't understand. So, we prefer to lose these kind of clients because they're not profitable in our methodology, in our numbers. And, as I said, this is a kind of, let's say, movement that happens from time to time depending in our analysis, if we are more concerned about share or not.

And if you take into consideration, what we are expecting for the whole year in terms of total sales volume. I would say that the pre and acquires (23:50) reached 8%, but let's remember that Agro card was responsible for a big portion (23:57) in the first quarter, because last year the shape of the curve of Agro card was not the best one to be compared. So the curve of the Agro card in 2016, it should - if you want to have a more, let's say, if I can - if you will, a more precise shape of the curve, I would compare to the shape of 2014.

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So in other words last year, you remember that the first quarter Agro was very weak and second quarter and third quarter were stronger compared to the first quarter, the reason why the increase or the growth of Agro was more than 100% this quarter. So this is one of the reasons why the total sales volume was higher when compared to the first quarter of last year. And about the behavior and the (24:51) that they can tell you that as you know, when I tried to take a look into history to try to predict about the future.

But when I take a look in the history, what happened when these kind of things happened in terms of share, it's a kind of thing that the competitors become more aggressive in big accounts, I'm not talking about the smaller merchants, I'm talking about the big accounts and when it happens and we don't see profitability in the P&L of each clients. We prefer not to work with these kind of clients. I hope this additional color helps and if you have more questions, please be free to continue.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Thank you, Rômulo. No, that was great. Thank you very much.

**Operator**

Our next question comes from Alexandre Spada with Itaú BBA.

**Q - Alexandre Spada** {BIO 16687974 <GO>}

Hi, gentlemen. Good morning. Congratulations once again on the results. I have two questions, the first one is regarding the Amex brand. Do you already know, if this brand will migrate to an MDR fee scheme with Cielo? And if so, when can we expect that to happen?

**A - Rômulo de Mello Dias**

I don't know. These kind of conversations happen between Amex and Bradesco first. But probably, probably Amex will become full acquire (26:24) as well. But I cannot tell you because I'm not participating in these kind of discussions. And as you know, Bradesco signed a contract in 2006 and this is a 10-year contract and the termination is supposed to happen in the mid of this year and probably six months more. But I don't have the details and as you know, there are some countries that Amex operates not in (26:53) not in a close look transaction. We operate cards let's say Visa and MasterCard in two countries.

So, what's going to be the end of this game, I don't know, but probably considering the desire from Central Bank, probably this is going to be full acquire (27:13) as well. But I cannot assure because there are some countries as I said, there are many countries as I said, that they operate in a close look model.

**Q - Alexandre Spada** {BIO 16687974 <GO>}

Okay. And my second question relates to indebtedness and dividends. As you stated, your net debt to EBITDA level is now down to 1.2 times as of April. So, my question is what

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is the level that would leave you comfortable enough to raise the payout ratio to maybe 70%, which is the level that Cielo used to pay prior to the acquisition of Cateno.

### A - Rômulo de Mello Dias

When we raise the debt to fund that the association with Banco do Brasil, to increase our net debt from around 0.5, 0.6 to 2.5 (28:05) including the anticipation that you do debentures. (28:11) As you know, we are a conservative company. Our company (28:15) shareholders are conservative, in terms of level of indebtedness and right now, we have - we are in 1.2. And if you don't have other possibilities to pursue, in terms of inorganic growth, and reach a level that we don't have - what are you (28:38) going to do with the money, of course, at the end of the day, after reaching a certain level, the level of business should come back to - should decrease again.

### Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Can we assume debt level is close to what it used to be before the Cateno deal?

### A - Rômulo de Mello Dias

I'll just make a comparison, I would prefer not to say, because this kind of thing, I need to have the approval from my board. You know what, we never have discussed, (29:11) this is the level that you want to pursue or I can have a personal opinion but I need to share and to have the approval from my board.

### Q - Alexandre Spada {BIO 16687974 <GO>}

Understood. Thank you very much.

### Operator

Our next question comes from Carlos Macedo with Goldman Sachs.

### Q - Carlos Macedo {BIO 15158925 <GO>}

Good afternoon, Rômulo, Clovis. I have a couple of questions. I'll start with one, then ask the other. The first one is on the LIO platform that you launched. Could you give us a little more color on the economics in terms of rental, the cost to develop each one of these little POS terminals, whether you're going to amortize the development of the terminals over time, if you're going to change to expenses, just so we get an idea of how this is going to - what kind of impact this could have on your bottom line from more operational standpoint over the next couple - maybe a couple of years as they get rolled out?

### A - Rômulo de Mello Dias

Carlos, (30:11) the cost of development of Cielo LIO is to some extent already include in our numbers. It's an investment in the whole that you are doing for more than three years or four years, trying to pursue what will be the best solution for mainly to moms and pops even though that Cielo LIO also address the need of the big merchants. Having said that,

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in terms of cost development, I would say that, you should not expect any kind of deviation from the numbers we actually provided so far.

Regarding the economics, we are not compare - I would say that we cannot compare Cielo LIO to the level of POS, they are different animals. It's apple to bananas because it's not only electronic payments. On the other side of Cielo LIO we have other things that allow the merchants to control their expenses, their catalog of products, their consolidations, their acquisition for receivables, check online, so and so forth. So, there are many features. And let's remember that if this (31:23) platform is opened is (31:28) right solution is the reason why we call Cielo (31:32) and we own the platform, we own the hardware - sorry, we own the software and we control and we say and we ask to our suppliers what you want in terms of hardware (31:50) so on and so forth. So, we control the whole system but it's a end-to-end solution.

Having said that, the economic is something that it's going to be - it's going to take into consideration what the merchants need for each vertical. If they want more information, they want more control, if they want more apps and let's remember that we have more than 200,000 developers of apps in the Android system. We can do a lot of things and still one of the things that - one of the beautiful things that you have in this platform, is the fact that it is a open platform that many developers who help us to provide the best solution for the verticals that you have. But in other words, consider the fact that we have not only the electronic payments in one card (31:40) but also there are other features that I just mentioned. At the end of the day, something that we will be comparing apples to bananas, the price of the apples is higher than the price of bananas.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. And you've done test with your merchants and they - I mean, this is a new product, right. This is - I think...

**A - Rômulo de Mello Dias**

This is completely a new product.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

...there may be one competitor that has something similar in terms of the format of the terminal, but in terms of the service, this is different. Have you done any work with your clients to see that this is something they would demand?

**A - Rômulo de Mello Dias**

It's a very good question, Carlos. We are quite sure that we were creating a new demand. And I like to make a comparison, (33:35) professor of marketing, he used to say - like the expression to create a new market is what we are doing here. If you allow me to say, is a kind of need (33:48) that the merchants, let's say, didn't have a clue that they need, make a comparison with the smartphone, and between the smartphone and the regular cell phone. When the smartphone was launched, nobody knew that - I don't know if (34:07) nobody knew, it's strong to say, but WhatsApp conversation, emails, Internet, and other things, is something that completely changed the landscape of the industry.

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If I make this comparison, Cielo LIO with - comparing Cielo LIO with the regular POS, regular POS makes lots of payments together with a lot of things with Cielo Loyalty, with Cielo Promo (34:38) and other products that you have, that which is, I would say, it's very good in order to retain the clients, but this new platform to some extent is a breakthrough in the industry. We created this business - we created this product from the scratch. There is some things that if you

take a look in U.S. (34:58) some companies that work great but from the scratch to try to address these kind of needs, but not inside (35:07) the acquiring companies. Some acquirers bought some - one acquirer bought one company in U.S. and we don't know how is the performance of this solution, because in U.S. (35:22) you don't control, you don't have the intent, what I'm trying to say that the POS or the platform belongs to the merchant and the merchants in many occasions, they prefer not to (35:36) to change and to have another solution, another platform because they are a very small and they prefer to keep the old POS because the chart that (35:50) does not go against down so and so forth. So, what's your - in the case of Brazil, the terminal belongs to us and we have let's say the capacity to - and we are going to offer on the new many options to the merchants and they will choose if they prefer the regular POS or they prefer Cielo LIO, they prefer Cielo LIO for more apps (36:14) so on and so forth.

#### **Q - Carlos Macedo {BIO 15158925 <GO>}**

Okay. Thanks, Rômulo. The key thing for us here trying to understand the impact this could have and how much penetration is price, right? Everything is a great product, but the appetite will be dependent on price. So, I know, that you're not really disclosing that, but right now - but as soon as you can get us an idea of what this will be relative to what you have will be great?

#### **A - Rômulo de Mello Dias**

Yeah. I would say the appetite next year will be strong. We didn't - we chat (36:46) when we launched, when we did the conference with the press, with the analysts, with the investors, with the clients, with some partners, we've said that in 45 (36:56) days the pilot will begin. So, the pilot will be launched by the end of March - by the end of May. And we expect to have 50,000 by the end of this year. Meanwhile, what you receive - we received many pre-orders, many pre-orders not only for the moms and pops, but also from big clients.

One big client said, I want 20,000 deals (37:22) and we said we are creating a - the reason why (37:28) kind of demand that they didn't know that they need. So, in other words our job right now is to deploy this solution that we develop from the scratch in order to address the needs from these merchants. But we are very excited about the solution because at the end of the day, in terms of appetite, I just mentioned to you, just one client, even though that - there are also other clients that said I want the first LIO that will be in pilots. I want the moms and pops also. They call our call center, they call our (38:10) from many channels that we have say that they want to have this kind of solution. And we're not advertising. We're not spending money to speak about Cielo deal. It's a kind of thing that we - it itself will create some (38:23) demand.

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So Apple, it's very good when they do this kind of thing. They created and they launched the new solutions, their new products and they desire to, let's say, to acquire this new hardware together with the software is very high, even though that in the recent quarters is not exactly the same, what's (38:48) happening. But at the end of the day, what they're trying to do is to create these new markets, is like one analyst role is like a blue ocean compared to the red ocean when you have more competition - when world have more competition.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Thanks. Second question, Rômulo, it's a little bit different topic. For the first time, I think since I've followed the company which is from the IPO, the number of merchants that you have has declined quarter-on-quarter, very little but it's down. Obviously the environment plays a big role here. And I think this is probably more indicative to revenues and everything else than say one big merchant leaves or comes in because the big merchants contribute little to revenues. What's the - you certainly have internal goals as to putting more merchants into the network and things like that. What is the outlook for the number of merchants who can (39:47) come in, is it going to be really constrained by the economy, I mean 6.2% year-over-year is still pretty strong when you consider the economy shrinking at 4% or more if you consider first quarter numbers. What do you think and what does the company work with in terms of the ability to add new merchants?

**A - Rômulo de Mello Dias**

Yeah, you're right when you say that for the first time we are experimenting a reduction in terms of new merchants, and why because of the macroeconomic situation, the mortality is increasing, mortality of the new merchants - mortality of the merchants on the whole. And this is affecting, let's say, at least when the contraction in terms of GDP and consumption continues to occur, it's going to - it's affecting the ability of the merchants' social life at the end of the day.

So if they are (40:46), at the end of the day they don't need the POS or they don't need our services anymore. So what you're trying to do is to explore new sectors, to explore new activities, to try to participate in some of the verticals that were not used in credit card, but at this moment it's going to be tough to address this kind of thing because of the macroeconomic situation. What we're trying to do in order to mitigate this kind of thing, that's the reality, to offer new services, new projects, Cielo LIO, acquisition of receivables, so on and so forth.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Thank you. But, I mean, just, it seems, there is a slight lag between economic activity and your ability to bring in merchants. Should we - do you think that number of 6.2%, is it likely, I mean you talked about volumes being weaker throughout the year, do you think that number could also be weaker during the year or are we at the bottom of the valley here?

**A - Rômulo de Mello Dias**

I think it can be a little weaker because we are comparing the first quarter of last year to this quarter of the - 2016 and 2015, but if you consider running weight (42:13) of the last three months, compared to the Q4, you are going to realize that 6% is not a good proxy for the whole year. In fact, it's going to be lower.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Okay. Thank you, Rômulo, thank you for your very thorough answers.

**Operator**

Our next question comes Craig Maurer, Autonomous.

**Q - Craig Jared Maurer** {BIO 4162139 <GO>}

Yes. Hi, thanks for taking my question. I wanted to ask your thoughts on how Merchant e is doing and whether or not any assets in the U.S. would be of interest concerning if there could be some smaller acquiring assets like Worldpay's U.S. division coming on the market? Thank you.

**A - Rômulo de Mello Dias**

Merchant e is going well. When you take a look what's going on in terms of U.S., America U.S. market and as well the other markets, we see that Europe because of the regulation, because of the gap that was setup for being the chant (43:26) 20 basis points for debit, 30 basis points for credit, so on and so forth. So, the profitability of the business in Europe is not the best one.

In the case of U.S., you have a good market. We have the growth is between 6% and 8% nominal in terms of Rio (43:46) growth. It's higher because of the inflation that you have here. And Merchant e is ahead of size that of course is not very big. But let's not forget that - said there in the Brazilian conference call that we're expecting for this year \$70 million in terms of EBITDA and I also said that we - I suggest the investors and the analysts not to pay attention in the profit of Merchant e-Solutions, because there is a fiscal trend in order to reduce the tax that you are supposed to pay if you have to come - if you have to (44:30) for dividends for Merchant e. The reason why the profit is not a good proxy to see - to analyze that I (44:32) think the performance of Merchant e-Solutions. The better proxy or the better number or the better measure is in our opinion is EBITDA.

Having said that, the U.S. market, there is a strong activity in terms of M&A. You have Global Payments. You have Vantiv, you have Worldpay. Worldpay, Vantiv and Global Payments. All of them are of the same size in terms of market cap and you also have First Data that they listed their shares again. There are some companies that are listed and the market cap of these companies one is \$10 billion and other one is \$11 billion.

Of course what matters is the enterprise value and you need to add the debt of the company, but what you're saying that so far we had what we have in our hands and we (45:35) let's say what we're going to do considering and we have a plan for Merchant e. We are doing some movements there in order to grow the business and the people

there are responsible for P&L and not for the platform. Platform would be responsible to make that adaptation of the platform.

## Q - Operator

Okay. So, you are paying attention, but no plans are eminent to extend in the U.S.

## A - Rômulo de Mello Dias

Yeah. We are paying attention, but there are things that first, if there is attrition. There is attrition in everything that you do and also in terms of the tax and if it's something that's good or not.

## Q - Operator

Okay. Thank you, Rômulo. Appreciate it.

Our next question comes from Gerardus Vos with Barclays.

## Q - Gerardus Vos {BIO 3301062 <GO>}

Hi. Thanks for taking my question. Three if I may. Just, first of all on the kind of CapEx, which was for the POS, which is running a bit below the kind of annual run rate. So, two questions, there. How should we say that during the kind of the year. And, secondly, how much of the R\$450 million in kind of CapEx is LIO.

And then secondly, just coming back on the kind of mortality rates in the mid end and smaller end of the market. What is the cheering you see at the moments. And then finally just coming back on the kind of volume. The 10% is just very good to what we see on the retail side and what you hear from kind of competitors. So, I was wondering, are there any kind of exceptional movements in that kind of first quarter to come out with such a strong number. Thanks.

## A - Clovis Poggetti {BIO 16529642 <GO>}

Hi, Gerardus. With regard to the CapEx, let's say that this push then come lower than what was originally expected. Of course, we are facing some microeconomic effect here.

We are still not changing the guidance for the whole year. But, let say most probably, the R\$450 million will not be achieved, which does not mean that it is correct to say the amount of CapEx in this first quarter is multiplied by four (48:04). If you do this, the number is going to be much higher. It's going to fluctuate in the next two quarters to three quarters. And again, in higher level compared to what we had in the first quarter.

[06XDT4-E Rômulo de Mello Dias] You also asked the question about - if R\$45 million [ph] goes to LIO. (48:26) That's right? The R\$450 million?

## Q - Gerardus Vos {BIO 3301062 <GO>}

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That's correct.

**A - Clovis Poggetti** {BIO 16529642 <GO>}

Yeah. Influenced. It's influenced.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

And, so how much is coming from LIO in that R\$450 million?

**A - Clovis Poggetti** {BIO 16529642 <GO>}

We're not disclosing information. We're not disclosing information, but it includes the number in terms of CapEx. But, what I can tell you Gerardus, that we expect for this year in our pilot - we will begin that pilot by the end of next month, May. And, by the end of the year, we expect 50,000 units of Cielo LIO. And five years expect R\$1 million terminals.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Right.

**A - Clovis Poggetti** {BIO 16529642 <GO>}

I think, we can replace some of the regular progress because of the thing that I just mentioned about all the (49:24) that Cielo LIO has.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Okay. Thank you. And then maybe just a follow-up...

**A - Clovis Poggetti** {BIO 16529642 <GO>}

Volume in...

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Yeah. On the mortality and the volume side. Yeah. Thank you.

**A - Rômulo de Mello Dias**

The mortality as I said before, mortality is - comes with a question that Carlos Macedo raised. Unfortunately, the mortality is higher than - mortality is higher than the new merchants coming to the Cielo. And series in why the number of merchants reduced a little bit.

In terms of volume, it was as you wrote in our report, in our release that the numbers came above that when compared to the number that we - when you provided the range of the guidance in terms of total sales volume for the industry.

And the last (50:29) between 5.5 and 7.5 is (50:31) also guidance that (50:35-50:42) for the whole year.

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So, I would say that this kind of (50:48) the first quarter was a good surprise and while also what I said, when Jorge Kuri (50:54) asked the question, that we are expecting (50:58-51:27) second quarter. However number one compared to 10%.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Okay. Clear. And then just maybe one follow-up on the POS side. I believe that for the first time in a couple of years, you've done an RFP for preferred kind of supply between kind of Verifone and Ingenico, and I was wondering if you have come to the conclusion on that phones yet?

**A - Rômulo de Mello Dias**

No. We didn't conclude. It's really what Clovis said that R\$47 million, is not the best proxy for the whole year, because the bid that we are having right now is a big one. And...

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Yeah.

**A - Rômulo de Mello Dias**

We continued our negotiations with the regular suppliers and then in the coming weeks, we're going to have, let's say a conclusion, which one we will choose.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Okay. That makes all the sense. 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 statements. Please go ahead, sir.

**A - Rômulo de Mello Dias**

So, I thank you very much for your participation in our conference about the results of the first quarter, and then 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.

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