

Q4 2009 Earnings Call

Company Participants

- Clovis Poggetti Jr., CFO
- Romulo De Mello Dias, CEO & IR Officer

Other Participants

- Carlos Macedo, Analyst
- Henrique Caldeira, Analyst
- Henrique Navarro, Analyst
- Ian Smith, Analyst
- Paul Tucker, Analyst
- Ricky Spurver, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. Welcome, everyone, to CIELO's Fourth Quarter 2009 Results Conference Call. Today with us, we have Mr. Romulo Dias, CEO and Investor Relations Officer, and Mr. Clovis Poggetti Jr., CFO.

We would like to inform you that 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 for investors and analysts only, when further instructions will be given.

(Operator Instructions)

Today's live webcast may be accessed through the internet address at www.cielo.com.br/ir.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of CIELO management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of CIELO and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Dias, who will begin the presentation. Mr. Dias, you may begin your conference.

Romulo De Mello Dias {BIO 2054119 <GO>}

Good morning. And I'd like to thank everyone for participating today in our presentation of CIELO's results in the Fourth Quarter of 2009. With me today, I have Clovis Poggetti, (Roberto Dolonia), Ivan, and Gustavo.

Let's begin the presentation. On slide three, I'd like to start by saying that the card industry continues to register the strong rates, the sharp growth in relation to the same period as earlier, highlighting the growth registered in the full year. As you can see, for a year that began full of uncertainties for the global economy, the industry continued to record strong growth, 18%.

Slide four shows how CIELO has been growing above the industry average, which reflects our high penetration in merchants and also the better service that we have and not mention its distribution.

On slide five, we present the main corporate events in the quarter. First event was the change in our corporate name to CIELO and the standardization of our identity in the capital markets with the change in our stock name in the ticker to CIELO and CIEL3.

This change is part of a new strategic plan to implement (a high) introduction of a multi-brand scenario in July this year with this new name and brand beginning a new visual identity for the multi-brand scenario and also avoid paying royalties for use of the former name and brand.

CIELO is focused to have the best network, mainly in terms of availability. This is the reason why we invested strongly to provide the best network and infrastructure in the market. In January, we received a data security standard from PCI, which is the most important standard in the global card industry. DSS is a security standard developed by major international brands aimed at preventing fraud and increasing the level of security in the electronic payment industry.

In practice, receiving the DSS standard means higher security for cardholders, merchants, and issuing banks, making the industry even more reliable and less vulnerable to data leaks. To obtain the certification, CIELO had to comply with a host of requirements, which include adapting seven system sites and adjusting 11,000 internal processes.

The effort took more than a year to conclude and involved investments in equipment, modernizing our POS terminals, which are the most modern in Brazil with an average age

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of 2.3 years, upgrading our technology systems, and training over 3,000 people as well other actions. CIELO certification was the largest brand in Latin America by PCI Council.

Another important event in the quarter was the announcement of the American depository receipt. This initiative, which does not involve a right offers or new share issuance, places CIELO among a select group of Brazilian companies with ADRs traded in the US, since only 67 of the 420 Brazilian companies listed on the BOVESPA offered this option to their investors. The ADR program offers yet another alternative for investors and increases CIELO's visibility to the international market.

Once again adopting corporate governance best practice ahead of regulatory requirements, CIELO has already released its consolidated financial statements in accordance with the IFRS, seeking to comply with market rules and present results that are more easily comparable with international peers.

And lastly, in the quarter in which we chiefly handle the highest number of transactions due to Christmas holidays, CIELO's operation maintained 100% availability and set a new record, registered over 35 million transactions on December 23 and 24, which was 18% higher than on the same two days of 2008.

Even though the impact on revenue was not significant, given the typically high volumes during this period, this level of availability reinforced CIELO's image as the biggest and best payment network in Brazil with the redundant systems and specialized teams mobilized to guarantee the highest reliability for merchants.

Moving ahead on slide six, we present CIELO's financial and operating highlights in the Fourth Quarter and full year of 2009. CIELO captured over BRL61 billion in credit and debit card transactions in the Fourth Quarter of last year, which represented an increase of 21% on the same quarter of the previous year. In the whole year, credit and debit card transactions was BRL214 billion, growth of almost 22%, which is close to 7% of GDP in Brazil.

Net operating revenue reached more than BRL1 billion, 23% higher than the same period a year earlier. In 2009, our revenue was BRL3.6 billion, up 25% on the previous year.

Adjusted EBITDA in the quarter was more than BRL700 million, growing by 61% of the Fourth Quarter of 2008. In relation to the Third Quarter of 2009, adjusted EBITDA grew by 11%, more than 11%. In the full year, adjusted EBITDA was BRL2.5 billion, an increase of 39% on the previous year.

For the second straight time, CIELO set a new record for adjusted EBITDA margin, which stood at 68.2% in the Fourth Quarter. In the whole year, adjusted EBITDA margin was almost 68%.

Recurring net income in the quarter was BRL442 million, growing by 77% on the Fourth Quarter of 2008. If you consider the Brazilian GAAP, this increase was above 54%. In

relation to the Third Quarter of 2009, net income was 11.4% higher. Meanwhile, in 2008, recurring net income reached more than BRL1.5 billion, growth of 38% in 2008.

Now I would like to turn the call over to our Interim CFO Clovis Poggetti, which will continue the presentation.

Clovis Poggetti Jr. {BIO 16529642 <GO>}

Okay. Thank you, Romulo. Moving to slide seven, we have a breakdown of revenues by type of card. The chart on the left shows the revenue from credit card transactions, which grew by 19.8% in the relation to the Fourth Quarter 2008, reaching BRL569 million.

In the quarter, revenue from credit card transactions accounted for 52.5% of the Company's gross operating revenue. In the full year, revenue credit cards reached BRL2 billion, a growth of 20.7% on a year-over-year basis.

Here, it is important to keep in mind that for CIELO, the revenue from installment credit sales is accounted on a month-by-month basis, based on the number of installments and not on the purchase date, which means the stronger activity related to the Christmas sales is not fully recognized in the Fourth Quarter.

The chart on the right shows the revenue from debit card transactions, which grew by 21.6% on the same quarter of the previous year, reaching BRL198 million. In the quarter, revenue from debit card transactions accounted for 18.3% of CIELO's gross operating revenue.

Very important to point out the excellent performance of our debit product after excluding the AgroCard with a growth of 20% on the same quarter of the previous year. In the whole year of 2009, revenue from debit card transactions grew by 23.2% to BRL638 million.

Moving on, slide eight presents the number of POS in revenue from terminal rentals, which make important contributions to CIELO's overall operating revenue. Regarding the rental revenue in the quarter, we had BRL282 million, up 15.7% compared to the Fourth Quarter 2008. In 2009, revenue from equipment rental was BRL1.1 billion. At the end of 2009, the POS terminal base stood at 1.6 million units, expanding by 19.4% from the end of 2008.

On slide nine, we present figures for the prepayment of receivables, a product that CIELO began offering to its merchants in September 2008. In the quarter, prepayment transactions registered financial volume of BRL2 billion and represented 5.3% of our credit volume. The average prepayment term in the Fourth Quarter was 61.8 days.

I would like to call your attention to the fact that in this quarter we adopted a new format for presenting the results from receivable payments. From now on, we present this revenue without considering the adjustment to present value. It's our understanding that

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this new format should enable the market to better monitor the performance of our business and our efforts to develop it. On the lower graph, we present the revenue without the adjustment to present value, which was BRL65.5 million in the Fourth Quarter, a growth of 32% on the previous quarter.

On the next slide, number ten, we present a comparison with the previous year of the cost of service provided in both the quarter and full year. This item includes all of the costs related to the Company's operations and varies in accordance with the number of POS and the number of transactions captured. In the Fourth Quarter, the cost of service provided was almost BRL211 million, a decrease of 5.2% from the same quarter in 2008. Without impact of the increase in the fees paid to the brand, the decrease in the cost of service provided would be even lower by almost 11%. The cost with depreciation declined by 15.7% to BRL43.5 million. This effect was due to the amortization of the client portfolio of CBGS, a subsidiary company, in 2008.

Operating expenses declined by 33.6% to BRL115.7 million, reflecting our programs to optimize process and reduce expenses. As a result, cost plus operating expenses in the quarter decreased by almost 18.6% on a year-over-year basis. And this considered an increase of 16.3% in the number of credit and debit transactions.

In the whole year of 2009, while the number of transactions grew by 16%, our costs and expenses together increased by only 4.6%. Once again worth it to point out that without the additional fees paid to the brand, the growth would be even lower by 1.4%.

This is why we have included this slide -- the next one, the slide number 11 -- which clearly shows the results of our persistent determination to control expenses and improve processes combined with the strong growth in revenue driven by the expansion of our operations. It's important to mention once again that these figures already include the higher fees paid to the brand due to contract renegotiations. Excluding such effects, costs plus expenses together would be reduced by 21.4% in the quarter and would raise by only 1.4% in the year for an increase of 60% in the number of transactions.

Slide 12 presents adjusted EBITDA, which reached almost BRL701 million in the Fourth Quarter, 61.2% higher than the same quarter 2008. The quarter registered significant improvement not just in EBITDA, but also in EBITDA margin, which registered margin expansion of 16.3percentage points in the relations to the Fourth Quarter 2008.

In relation to the Third Quarter, EBITDA increased by 11.4%, while EBITDA margin improved by 0.2percentage points. In 2008, adjusted EBITDA was BRL2.5 billion, a growth of 39% on the previous year, and EBITDA margin of 68% for margin improvement of 7percentage points.

The chart on the right shows the increase in net income reaching BRL442 million in the Fourth Quarter, up 77.5% on the same quarter of 2008. Net margin also presented significant improvement with margin expansion of 13.3percentage points to 43%. In relation to the Third Quarter, net income posted growth of 11.4%.

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The chart with the full-year figures shows the positive path followed also by recurring net income, which was BRL1.5 billion in 2009, up 14% on 2008. Meanwhile, recurring net margin stood at 42% for margin improvement of 4percentage points on the prior year.

Here, I would like to point out once again that both operating margin and net margin demonstrate the efficiency gains sought by the Company which is working to control operating costs and expenses while maintaining the growth in transaction volume.

Slide 13 presents the difference resulting from the adoption of IFRS in our net profit and EBITDA numbers. As it can be observed to the year 2009, both the quarter and the full year, there was no change in the net profit. The small difference we observed refers to EBITDA and derives from a reclassification from other expenses line to depreciation and amortization expenses.

And now I would like to hand the presentation back to Romulo.

Romulo De Mello Dias {BIO 2054119 <GO>}

On slide 14, we'd like to present our actual figures and compare with our expectations. In terms of our financial transactions for both credit and debit transactions we had expected to end the year with growth of between 21% and 22%. Actual growth in the year was 21.9%, reaching the upper end of our guidance.

The net MGR for credit cards came in exactly at 149 bps, which is the figure given in our guidance. The net MGR for debit cards considering the AgroCard was 81 basis points, which was slightly above the figures given. Meanwhile, the net MGR, excluding AgroCard transactions, came in at 85 basis points, in line with our guidance. And the CapEx was BRL215 million, exactly the figure given to the market.

The last slide, slide 15, shows the advantages in position we have to successfully compete in the new competitive scenario we will face as of July 2010. First, reliability -- we operate with redundant network systems and high criteria for business monitoring that result in availability of 99.995%. To give you an idea, this index corresponds to system unavailable for only 26 minutes in the entire year.

We have just received the PCI DSS certification that together with Lynx our neural system to detect and monitor frauds provides higher levels of security for merchants, banks, and cardholders. And we also have the most modern POS base in Brazil with an average terminal age of 2.3 years.

Second, distribution -- it's important to emphasize CIELO's distribution capacity and extensive coverage in a country of such continental proportions like Brazil. I think our numbers proves that. Even though we already have the largest merchant base in Brazil, we ended last year with 1.7 million merchants distributed across almost 98% of the country's municipalities.

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For comparison, at the end of 2008, we had 1.4 million affiliated merchants, which means that in the period from January to December 2009, we affiliated more than 380,000 new merchants as a result of working very closer with our network of partner banks.

Third, innovation -- CIELO is constantly seeking to innovate by launching unique products that not only improve the revenue earned from clients but also address their main needs, such as guaranteeing traffic and improving customer loyalty. Some of the key projects are bank correspondence, contactless payment, mobile payment, and promotional platform.

Four, differentiated relationship -- our sales team is present more than ever in the day-to-day routines of merchants, offering our broad portfolio of products, which range from the most innovative to the prepayment of receivables, which was introduced in September 2008 and has been increasingly contributing to the Company's results.

That concludes our presentation. I'd like to reiterate our commitment to transparency while also striving to maintain corporate governance best practice and to create value for our shareholders while also considering the needs of the entire chain of the stakeholders.

We are now available to take your questions in the Q&A session. Thank you.

Questions And Answers

Operator

The floor is now open for questions from investors and analysts only. (Operator Instructions) Our first question comes from Carlos Macedo from Goldman Sachs. Please go ahead.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good afternoon, Romulo, Clovis. I have a couple of questions. The first one is related to the improvement that we saw, the significant improvement in selling cost for transaction in the Fourth Quarter, obviously fruit of the result of all the efficiency improvements you implemented through the end of 2009. I was just wondering if we can expect to see more in 2010 what kind of spillover we're going to have in 2010 from the improvements in 2009.

And the second question is related to the fee that you paid to Visa. Obviously, that has its own path of increase due 2011. I was wondering what the likelihood is that you're going to be able to strike a similar arrangement or agreement with Mastercard, in other words with a cap and increasing slowly over time. And conversely, what do you think is the probability that one of your competitors might be able to strike the same kind of deal that you have with Visa to acquire for -- acquire Visa transactions?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Morning, Carlos. Regarding the first question, results efficiency improvement, what we could expect in 2010, I think a good portion of our work was already recognized in 2009, even though some of the improvements will be recognized in 2010. And these additional improvements in terms of cost and efficiency didn't appear in our balance sheet.

Regarding the second question, fees to Visa, if you are supposed to pay your similar fees to Mastercard, we didn't begin the negotiations about this specific, let's say, issue, even though we already have, let's say, some kind of expectation. But I prefer at this moment not to say anything. If my main competitor will pay or will be able to achieve the same fees that you're paying to Visa, I would prefer not to answer because I am not maybe the right person to comment.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, Romulo, thank you.

Operator

Our next question comes from Saul Martinez from JPMorgan. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Thanks for taking my call. I just have a few strategic competitive questions -- questions on the competitive landscape. And first, obviously, (Reggie Card) talks a lot about the prepayment business being a differentiator from a strategic standpoint and enhancing customer loyalty. Obviously, for you guys, it is a business that continues to develop. I'm just -- I'm curious how important you think that is as a differentiator and from a competitive standpoint.

Secondly, what are you doing in terms of expanding your bank relationships with non-shareholder banks to enhance your distribution? And thirdly, obviously Reggie Card had some issues on December 24th with their technology. I'm curious what you think the ramifications of that will be.

Do you think it increases the likelihood that merchants will maintain multiple boxes? Do you think it has a competitive implication in terms of favoring you guys over your competitor? Curious to see if you think there's any fallout there. So those are my three questions, the prepayment, what you're doing for non-shareholder banks, and the Reggie Card fallout.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Hi, Saul. Let's talk to you. About the first question in terms of prepayment, I think we are, let's say, on the right path. We are increasing. We increased from 4.7% to 5.3% in terms of total credit card transactions. But we also think that it's really important for us to enhance customer loyalty, even though that it's also important to understand the new scenario that our new market will face in July 2010.

As you know, today I captured from Visa's transactions. And my competitor captures Mastercard transactions, so on and so forth. In the future, in July 2010, when we'll be able to capture Mastercard and as well other brands, it's going to be very important to address the issue of the security in terms of the credit risk. So I don't know if you're familiar.

But the banks, when they provide funds to the merchants, they can do this with the guarantee, with the receivables. Or they can do the credit clean. But they do the credit clean, consider the behavior, consider the relationship that they have with each merchant.

In the future, if they cannot block the transaction, if they cannot block the merchants with me or with a Reggie Card because if I do a transaction and if I lock the transaction from the bank gate and the merchant decides to move and to operate with another bank, at the end of the day, the bank will have no visibility or no guarantee in terms of cash flow that the merchant receives from the merchant.

So I'm trying to say that there is a scenario today that we are delivering and improve our participation. But also, there is something that we need to understand that the market will be another one in the future. And this market will create a new scenario, not only for the (mute) brand in terms of mute brand acquired but as well for the prepayment. Prepayment needs to be addressed by a third party in terms of their (lokine).

And by the way, the industry is -- as an industry, we are having some meetings. The acquirers, the banks as well are the parts of the equation in order to address this issue that's really important. What I'm trying to say that probably a first company will, let's say, will be, let's say, the vehicle to do the looking for us as well for my main competitor and the other competitors that are in the market in order to have more visibility. It's going to take some time. But it's important to understand this new scenario.

Regarding the second question about the relationship that we have with the banks that are not our shareholders, I can assure you that we have very, very good relationships with HSBC, (Sofen), as well with (Cash Economica Fidero). I'm talking about the big banks. We also have relationships with the small banks that issue cards. But we have very good relationships with the three banks. And I think we do not owe anything in terms of relationship as well in terms of products, service, innovation, so on and so forth.

The third point that you mentioned, technology, I would say -- I would prefer, let's say, that the problem that happened with my competitor that you should ask this question to them. But in our -- on our side, we captured more transactions. It was not, let's say, something that affected very, let's say, positive -- it was very good in terms of revenues because it didn't change our numbers in the day of 24. But in terms of image, I think our image was, let's say, (hang force) as not only as the largest but as well as the best company in terms of availability.

And I also would say on the other hand that probably some of the merchants that were considering the possibility to work only with one acquiring, probably they are going to work with two acquiring companies. And if you were not the first choice or therefore if

CIELO was not the first preference, it's our understanding. We do respect what the competition is doing. But I think we have, let's say, some key points that differentiate ourselves when talking to the merchants in any work.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. That's very helpful. Thank you, Romulo.

Operator

Our next question comes from Paul Tucker from Egerton Capital. Please go ahead.

Q - Paul Tucker {BIO 2367847 <GO>}

Yes. Thank you. Good afternoon, everyone. Can I just go back onto the operating costs? And I just want to clarify a few points. Maybe to start off with -- and I've got a couple of follow ups -- within your full-year operating cost number, the number you report as BRL401 million adjusted, can you just remind us what is in that number which is nonrecurring? And I think you mentioned earlier in the year there was a termination fee for the EDS contract, so just trying to get a sense first of the base for 2010. Then I've got some follow ups.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Okay. I'll pass this question to Clovis.

A - Clovis Poggetti Jr. {BIO 16529642 <GO>}

Okay, Paul. Sorry, you are taking the full year. Just give me a second. What we are considering -- the only effect that we are considering as nonrecurring means to BRL4.4 million that we had a loss as a result of the merger of CBGS. This is a subsidiary company, very briefly means the following -- I had 100% of vehicle company.

And during this merge, I stood with 40% of the company in the healthy (choose). So in this exchange, from a limited company to an open company, we had this BRL4.4 million loss.

Very important to mention that we already fulfilled all our obligations regarding this joint venture. When I mean obligations, I refer to the fact that, if you remember, such a joint venture, we are talking about CIELO. We are talking about Bradesco, Saudi, and also (Cassy). Okay. Bradesco, Saudi, and Cassy, they entered into the business with the lives, let's say. And CIELO entered with the financial investment. Okay? So everything was fulfilled until December 2009, which means that we will not have any further impact on this.

Q - Paul Tucker {BIO 2367847 <GO>}

Okay. Could we -- that I appreciate your answer. But it's not a very material amount. It's only BRL4 million. But am I right in saying earlier in the year you had a one-off cost of BRL32 million for terminating the EDS contract?

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A - Clovis Poggetti Jr. {BIO 16529642 <GO>}

BRL32 million provision regarding EDS contract, but also we reversed BRL17 million in the First Quarter regarding the stock option plan. So the net amount refers to BRL15 million.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

You are absolutely right.

Q - Paul Tucker {BIO 2367847 <GO>}

I'm sorry. The BRL17 million was in which quarter?

A - Clovis Poggetti Jr. {BIO 16529642 <GO>}

The first one as well.

Q - Paul Tucker {BIO 2367847 <GO>}

In Q1.

A - Clovis Poggetti Jr. {BIO 16529642 <GO>}

The same quarter that we accounted for the BRL32 million.

Q - Paul Tucker {BIO 2367847 <GO>}

Okay. So there was BRL15 million that we may consider nonrecurring in Q1.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Yes.

Q - Paul Tucker {BIO 2367847 <GO>}

Okay.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Paul, it's Romulo speaking. Good to talk to you.

Q - Paul Tucker {BIO 2367847 <GO>}

Hi, Romulo.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Because in the First Quarter, we made this provision in 2008. So when considering that the IPO was postponed, so the auditors referred us to, let's say, not recognize. So the First Quarter had this impact. That was a good one in the First Quarter of 2009 -- was not a good impact, let's say. And the other one was the impact of call center contracts, which was --

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Q - Paul Tucker {BIO 2367847 <GO>}

Okay.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

And that impact was --

Q - Paul Tucker {BIO 2367847 <GO>}

BRL15 million.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

-- BRL15 million.

Q - Paul Tucker {BIO 2367847 <GO>}

Wonderful. Thank you for that. Now can we just go onto your personnel costs because we had a jump there? I mean, looking at '09 over '08 or if we look at the Fourth Quarter '09 and the Fourth Quarter '08, there was a fairly big jump on the order of 20%. Can you just take us through -- again, are there any one-off payments in there to normalize benefits or employment contracts? Should we be thinking about that as the new base? And what kind of growth might we see in 2010?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Yes. It's a good question, Paul. We increase the cost of personnel due to the fact that to increase our remuneration, including improving the first remuneration and as well launching the stock option plan.

So we -- with this policy, because we were paying in 2008 at (inaudible), so only 50% was paying above CIELO. With the new policy, we improved to the fourth quartile, which means that only 25% of the comps are paying more than us.

So what was our intention with the stock option because it's included? The stock option is the main, let's say, reason why we had this increase and as well an increase in terms of short-term remuneration. We decided to do this not only to keep the best talent but also to attract more people to work with CIELO. So this is the main reason. Going forward in terms of 2010, we should not expect, let's say, the rate of growth that you had in 2009.

Q - Paul Tucker {BIO 2367847 <GO>}

Okay. And maybe if I can just be cheeky and ask one final question on costs, I think you've made reference before to some known costs, say, so the call center. You changed some logistics providers. There was the EDS contract. And you've given us a sense of how much they would save on an annual basis on a business-as-usual assumption. I think that was the way you expressed it. Can you just kind of help us understand how much benefit there is to the operating cost line or the cost of goods sold from those initiatives that we should still expect to see in 2010 and maybe give a sense of whether there's other things coming through as well?

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A - Romulo De Mello Dias {BIO 2054119 <GO>}

In terms of cost, we expect a comparison between the call center for the effect of the change, call center, from the former provider to the actual provider, the existing one, was from the reduction, when in 2009 was BRL0.5 million. And we expect a reduction considering the same numbers of 2009 of BRL15 million. So this is the first.

The second is related to the processing. We had a reduction that affect our numbers in 2009. This reduction was BRL15 million. It happened the second semester. But we expect to have a reduction for the whole year of 2010 of around BRL42 million, again, taking consideration the same numbers because when you increase the volumes, of course, the total number in terms of costs decrease.

And more important, besides reducing the costs that in some of these cost efficiency program already appear in 2009 and some will appear -- let's say 100% -- in 2010. More important than the cost reduction that was really important for us was also to achieve a better service in terms of SLAs, in terms of operational efficiency. So we are working with companies that are, let's say, providing good service for us at this stage. And we think it's really important the new scenario that we're going to face.

Q - Paul Tucker {BIO 2367847 <GO>}

Okay. And just -- was there another save that you made on the logistics providers as well in the north and northeast?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

In terms of the logistic providers, you had recognized the numbers in 2009.

Q - Paul Tucker {BIO 2367847 <GO>}

That's in 2009. That's great. Thank you very much.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

But Paul, it doesn't mean that we -- I would say that the main, let's say, efforts we did. But we still are paying attention, let's say, to this issue, cost efficiency.

Q - Paul Tucker {BIO 2367847 <GO>}

Thank you, Romulo.

Operator

Our next question comes from Henrique Caldeira from Barclays Capital. Please go ahead.

Q - Henrique Caldeira {BIO 16441196 <GO>}

Hi, everyone. Thanks for taking the question. Romulo, I would address a question on the competitive landscape. I understand CIELO believes a few -- a significant part of the

industry will continue to have two different -- two acquires now, either you and Reggie Card, keeping the same machine. I want to know what your strategy to make the sales per merchant increase.

Now we could have an industry where the active merchants are stabling, either you and your competitor. But you need to see in those sales per merchant increasing instead of losing share. So what are you doing on that strategy perspective? And I will have a follow-up question. Thank you.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

When I say maybe two acquirers, it doesn't mean that necessarily it's going to be us and our main competitor, can be a different one. But anyway, something that the choice will be of the clients.

Regarding the -- and we do believe that the thing that happened on the Christmas maybe, let's say, called the attention from the merchants that this is -- this business is not easy at all. It's not -- I'd like to say it's not something for a new player that does not have enough capabilities in terms of distribution and as well in terms of availability and security, so on and so forth.

About the strategy to, let's say, to talk about the -- to talk about market share, I think you are, let's say, very well informed that in our opinion the name of the game will not be Visa or Mastercard or AMEX. In our opinion, the name of the game will be distribution, relationship with the channels that are able to convince the merchants to work with us.

And we are -- we already have a plan to address this issue in the new competitive scenario, in a more competitive scenario that you are going to face. So we do think that we have some strengths, such as the one that I mentioned in my speech and the one that I'm repeating right now to you, which is distribution, relationship with the nation, wide banks that are in Brazil from the north to the south.

Q - Henrique Caldeira {BIO 16441196 <GO>}

Okay. Thanks, Romulo. And Romulo, can you explain us -- do you think it's wrong from our bill and from the fewer market participants to say that Reggie Card has a slight advantage with fewer clients and especially larger clients, given their strong relationship on the prepayments?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

I do think it's wrong to say that because to do the prepayments with them, it's a matter to work and to provide the service and the cost. But I do not think it's right to say that they have an advantage when compared to us.

Q - Henrique Caldeira {BIO 16441196 <GO>}

Okay. But even if there is a player which is now anticipating a four or five times larger than you -- and it seems to us that there are a large amount of Visa which are being prepaid

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with the banks, which they charge (IOF) taxes. So do you think your clients feel that CIELO will be ready to prepay the same amount which your competitor are doing? And when do you think you will be ready to do this?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

The same amount I prefer not to say because I do not say for this percentage that they are being anticipated by the market will be -- will keep the same level. As I mentioned in my previous, let's say, comments, the world will change. The lock in will not exist anymore in the way that you are working with the banks today. So the banks will have more power.

And because they really do, let's say, the anticipation, I would say that some of the banks, such as Itau, they just begin to work with anticipation. If you talk to them, I would say that in the six months or eight months, they were more, let's say, focused. When I say they just began with focus, okay, with more effort.

I think also it's going to make some difference in the market, in the new scenario, as I said before, will be another one. We are always saying that -- the market is always saying that (both) brand acquire and the product of prepayment, how it's going to be, the prepayment in the new scenario. We do think that in the medium term, two years, three years from now we do not have this advantage when compared to the practice that the market is having today.

Q - Henrique Caldeira {BIO 16441196 <GO>}

Thanks for the answers.

Operator

Our next question comes from (Ricky Spurver) from Citi. Please go ahead.

Q - Ricky Spurver

Yes. Good morning, everyone. I was wondering if you can comment on the trends that we saw on the prepayment business this quarter, in particular the increase in the average term but also the decrease in the average monthly spread, so if you can comment on why that happened.

And also, a second question is on net MDRs on both credit and debit cards. Not only are your net MDRs higher than your competitor, but they have also been more resilient than your competitor. Can you please comment on why that is? Thank you.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Hi, Rick. Trends of repayment -- we -- the main reason why we increased the average day is due to Christmas holiday. People -- usually they bought -- they buy things that are more expensive. And they need to be fund -- to be financed by the merchants, by the banks, or so on and so forth. So this is the reason why we increased the average day, which on the other hand addressed the point that Henrique Caldeira just mentioned.

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We also work with big companies. And as you know, these big companies, they do have access to a better offer in terms of the price, in terms of the interest rate that you are paying.

About the net MDR, we -- I think we -- you have a value proposition to the customer, to the merchant that proves that CIELO cannot be forgot in a new scenario. I would say that we are working with the merchants. We in a way to prove that CIELO needs to be -- if it's not the choice, if it's not the option -- at least an option together with the other one. So this is -- how do I say -- the competition. And about the net MDR from my main competitor, I prefer not to comment.

Q - Ricky Spurver

Okay. So if I understand you correctly, you're saying that the service proposition, the services that CIELO offers, that's why -- what keeps the MDR being as resilient as it has been.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

I think it's one of the issues that's going to be considered by the merchants, the service, the availability, the network capability, the distribution, the relationship with the merchants. It's a mix of -- it's a set of things that needs to be considered when trying to anticipate who or one, two, or three is going to be the choice from the merchants. It's not only one thing. It's a set. It's many things that need to be considered.

Q - Ricky Spurver

Okay. Thank you.

Operator

Our next question comes from Ian Smith from Nevsky Capital. Please go ahead.

Q - Ian Smith {BIO 17539373 <GO>}

Hi. I just wanted to ask a fairly broad question about how the banks are likely to behave in a new environment really with -- I suppose at the moment if Bradesco or Banco de Brazil, they'll need to refer clients to your competitors, for example, for Mastercard transactions and prepayments, where the account is locked and vice versa with regard to Itau Unibanco.

Now given the stakes that are owned in the various acquirers, is it your sense that the banks are going to become much more territorial from July? And if so, could you give us a sense of whether this might have an impact on the competitive dynamics?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Hi, Ian. Good to talk to you. The banks -- how the banks will behave in the new environment, I think in our opinion they're going to have far more, let's say, more to say when dealing with the acquiring companies. And as you know, we do pay commissions to

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them in order to affiliate the merchants. But we also expect to increase, let's say, the commissions that you're supposed to pay to the banks because we're -- the power is going to be another one.

On the other hand, we do expect also to have a reduction in the market in expenses as the way that we used to have so far, let's say, but in the name of Visa, creating the brand, so on and so forth. So this is the first question.

About the second question, prepayment, I didn't get exactly what you tried to say when you mentioned Mastercard. I didn't get your point.

Q - Ian Smith {BIO 17539373 <GO>}

I suppose just in -- with regard to prepayments whether -- well, you've already referred to how actually it's unclear how things will stand in the new environment. But do you have a sense from what the banks' current view is on how they'd like to see that develop or whether they'd like to take more share, what sorts of transactions they're happy for the acquirers to continue to do prepayments for, what sorts of merchants, as well as whether they're going to likely direct those -- that business toward particular acquirers?

A - Romulo De Mello Dias {BIO 2054119 <GO>}

In terms of the trends of the industry, I do believe that the banks will have more power and probably more interest to increase its participation in the prepayment business. I'm talking for the industry as a whole.

In terms of CIELO, I do believe that we have room to grow, considering the level of penetration that you achieved so far. So what I'm trying to say that from three years from now I do not see a reason why we should have, let's say, a big differentiation and compare to the other players in the market because the market is going to be another one, as I said before. And prepayment is going to be very important for 100% of the acquirers and not only for me or for acquirer B or C. So this is how do you see the trends for the market in three years from now.

Q - Ian Smith {BIO 17539373 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Henrique Navarro from Santander. Please go ahead.

Q - Henrique Navarro {BIO 16188960 <GO>}

Hi, Romulo. Good evening.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Hi, Henrique.

Q - Henrique Navarro {BIO 16188960 <GO>}

I just would like to know if you have an idea when the Company will launch its ADR program in the US, if it could happen, let's say, in the first semester of 2010, and also if you have plans to release a guidance for us for 2010? Some companies, normally they release only when you release the First Quarter results of 2010. So I would like to know if we can see a guidance earlier than that.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

Yes. We -- hi, Henrique, again. We -- in terms of to launch the ADR to the end of March, we will be able to launch.

A - Clovis Poggetti Jr. {BIO 16529642 <GO>}

Yes. It's been -- hi, Henrique. It's Clovis. It's been now -- we already filled the forms to CVM being analyzed. And CVM has 30 days to complete all the analysis and et cetera. So for sure, during the First Quarter, we will launch the program.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

And about the guidance, we expect, let's say, to analyze the new scenario and probably to launch the guidance when we publish the First Quarter.

Q - Henrique Navarro {BIO 16188960 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) This concludes the question and answer session. At this time, I would like to turn the floor back over to Mr. Dias for any closing remarks.

A - Romulo De Mello Dias {BIO 2054119 <GO>}

So thank you very much for attending our conference call. We have our team here 100% available to answer any additional or further questions that you can have. So thank you very much.

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