

Q4 2012 Earnings Call

Company Participants

- Clovis Poggetti, CFO, IRO
- Roberta Noronha, IR Director
- Romulo de Mello Dias, CEO
- Unidentified Speaker, Company Representative

Other Participants

- Craig Maurer, Analyst
- Daniel Abut, Analyst
- Diego Mauro, Analyst
- Jorge Kuri, Analyst
- Marcelo Henriques, Analyst

Presentation

Operator

Good morning, everyone. Thank you for waiting. Welcome to Cielo's Fourth Quarter 2012 Results Conference Call.

(Operator Instructions)

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 cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Ms. Roberta Noronha. Ms. Roberta, you may begin your presentation.

Roberta Noronha {BIO 20488075 <GO>}

Hi. Good morning. I'd like to thank you all for joining us as we present results from the Fourth Quarter 2012. With me today are Romulo de Mello Dias, CEO, Clovis Poggetti, Junior, CFO and Investor Relations Officer and the remainder of the executive board as well as the finance and investor relations team.

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Now I would like to hand it over to Romulo.

Romulo de Mello Dias {BIO 2054119 <GO>}

Good morning. Thank you for joining us for another results conference call. The Fourth Quarter of 2012 earnings marks the start of a new phase for Cielo. For the first time, we are consolidating results from the US company we acquired the second half last year, Merchant e-Solutions.

Although in our recent past we have made other acquisitions and created joint ventures, for the first time we acquired a foreign company with established operations meaning we have a more relevant result. As such, we are now fully a conglomerate where companies in different operations stages will in the future contribute to the growth of our business.

Just to remind you, Cielo group is currently composed of companies focused on trends that regulate, will be the vectors for growth in the future.

On page three, we can see a timeline of our various innovations initiatives including acquisitions like BrasPag, our bet in the e-commerce segment and the leading gateway in the Brazilian verto[ph] markets. This segment has seen significant growth and we expect that by 2020 it will represent the main vertical for Cielo. In the longer term, we have our initiatives in Oi[ph] Planet, the M4U and Paggo.

In addition to our consolidation as a group, we also announced new partnerships in November. First, we announced a partnership with Planet Payment, a leading company in processing international and multi-currency payments focused mainly in foreign tourists that will visit Brazil during 2014 World Cup and the Olympic Games in 2016.

The second with Facebook to develop B2B2C service for social engagement in the digital area. And precedent in Brazil, in the world, the partnership brings a new dynamic to conception at the point-of-sale and innovative way for merchants to relate with customers.

This quarter we also adopted a new way to present some indicators. We did this because currently Cielo is the only publishing health company in the industry and we believe that maintaining the prior level of disclosure given the expected competitive landscape was not the most appropriate.

On the next slide, number four, we have the evolution of the transaction financial volume with credit and debit cards. Year-on-year, our financial volume grew to 4.5% according to market criteria where all installments are recognized at the time of purchase and 14.4% according to accounting criteria as you can see in the graph.

In the same period, credit volume was up 16% to BRL65 billion. Debit volume was up 12% to BRL39 billion. The slower growth in financial volume in the quarter is primarily explained by the fact that the same period of last year was a very strong comp.

Remember that in Q4 of 2011 we saw major gains in market share which help to drive financial volume growth in the quarter to 23% as compared to 2010. Such behavior we will repeat in the first and Second Quarter of this year as it means that the growth is a fiscal challenge during this period it should not be underestimated given the volume from Q4 of 2011 to Q2 2012. This period was very strong for Cielo.

Also, collaborate for such reduction, the loss of market share that we suffered that was broadly announced. And finally, the strong penetration of PC and as a consequence weaker growth for the industry estimated by us between 15% and 18% for 2013.

In 2012, our financial volume expanded almost 20% under the market criteria where installments are recognized at the time of purchase and 20.3% under the accounting criteria. According to the accounting criteria in 2012, the total financial volume of capture on our network was BRL380 billion corresponding to 80% of GDP. In the same period, credit volume was of 22% reaching BRL242 billion. For its part, debit was up 17% to BRL138 billion.

On page five, we have the number of transactions captured in Q4 in the year. In the last quarter, this figure was up 9% over the same period of the previous year with 1.4 billion transactions. For the year we exceed 5 billion transactions posting a 15% growth.

Moving on to operating details on page six we have the number of POS installed and active clients which are those that have made at least one transaction in the last 60 days. Q4 in 2012 figures are the same. In the same graphs we can see that these indicators were up in the period. The installed POS increased 16% with wireless POS equipment at 47% of the total base while active merchants grew around 11% in the same period.

Now I'd like to give your attention to Clovis Poggetti who will continue our presentation.

Clovis Poggetti {BIO 16529642 <GO>}

Thank you, Romulo and good morning everyone. On page seven, we have our net operating revenue which totaled BRL1.6 billion and growing 34% over Fourth Quarter 2011. As we mentioned before, here we can see the back of is the consolidation of Merchant e-Solutions.

Remember as well that the increase in the financial volume does not include Merchant e-Solutions transactions. It only considers the financial volume from the domestic market. Net operating revenue closed 2012 at BRL5.4 billion up 29% over 2011.

On the next page, number eight, we have our costs plus expenses. Total costs plus expenses reached BRL876 million in the Fourth Quarter up 44% over the same quarter of 2011 and 39% over the Third Quarter. The cost of services provided was BRL611 million in the quarter growing 50% and 40% year-on-year and quarter-on-quarter respectively. Let me point out that the consolidation of Merchant e-Solutions had the most significant impact on this line.

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Our operating expenses increased 32% over the Fourth Quarter 2011 and 36% of the Third Quarter BRL2012 to BRL265 million, also strongly impacted by the consolidation of Merchant e-Solution's numbers. In the year, costs plus expenses were up 31% to BRL2.7 billion. Of this total, costs were up 30% to BRL1.8 billion and operating expenses accounted for the remainder at BRL809 million for an increase of 32% in the period.

On the same slide, we can see that total cost plus expense per transaction that again that the consolidation of Merchant e-Solutions had a significant impact in the quarter and as a consequence, the consolidation of the phone year totaled BRLO.50 per transaction. Considering that most subsidiaries that have an impact only on the cost plus expenses line and not in the number of transactions, this behavior was already expected. When our subsidiaries are excluded, the unit cost plus expense was BRLO.42 per transaction in line with the soft guidance given since beginning of 2012.

The prepayment of receivables revenue presented on page nine is the main component of the financial results. In the Fourth Quarter 2012, the prepayment revenue represented BRL237 million up 23% year-over-year and 14.2% quarter-on-quarter. For the full year 2012, the prepayment of receivables revenue represented BRL848 million, a growth of 39% in comparison to the previous year.

The dynamic of the prepayment of receivables operation, shown on page 10, shows a significant increase in prepaid volume in the Fourth Quarter 2012 up 74% over Fourth Quarter 2011. In the quarter, BRL8.5 billion was prepaid representing 13% of the credit volume which the average term extending to 62 days. This behavior is explained by operations with large retailers which caused this type of impacted due to the large volume and longer-term. As compared to 2011, the prepaid volume grew 72% in 2012 to BRL26.4 billion while the average term remained practically stable.

Financial results on page 11 on mainly revenue from the payment of receivables operations just mentioned on the previous page. In the Fourth Quarter, financial income was BRL180 million up 80% over the same period of the previous year and down 10% over Third Quarter 2012.

The main reason for the quarterly decline was that BRL875 million debt issued in the Fourth Quarter. The bonds are due in 10 years and will pay a coupon of 3.75%, the lowest rate ever seen in history for a Brazilian company funding and international market. This operation has subjected it to be a natural hedge to the dollar-denominated assets that we have now in our balance sheet given that the acquisition of Merchant e-Solutions. For the year, financial income totaled BRL746 million up 35% over the previous year.

Regarding our financial performance, we show on page 12 our EBITDA in absolute value and margin. EBITDA totaled BRL826 million in the quarter, up 25% over the same period of 2011. EBITDA margin was at 51.4% in the quarter chiefly due to the consolidation of Merchant e-Solutions.

Remember that acquired in the United States recognized the gross MDR as gross revenue. And interchange fees as costs which is why despite the contribution of

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merchants into the results being small in terms of the bottom line, when consolidating the figures the contribution to revenues ends up explaining why this impact in margin is large. EBITDA margin fell 3.5 percentile points over Fourth Quarter '11. In 2012, the margin was 56.8%, down 0.4 percentile points.

On the next page, number 13, we can see that net income total of BRL610 million up 21% year-on-year with a net income margin of 38%. For the year, net income was BRL2.3 billion almost 28% greater than in 2011 with net income margin practically stable at 42.6%.

Now I will go back to Romulo.

Romulo de Mello Dias {BIO 2054119 <GO>}

To close our presentation, I want to announce the payment of dividends and interest on equity which was already approved by our Board of Directors for the fiscal year ended in December 21, 2012 and subject to the approval at the shareholders meeting.

As you can see on page 14, the total remuneration including dividends and interest on equity is almost BRL1.6 billion or roughly BRL2.42 per share. According to our policy, the payment will be at the end of March. It has also been approved by the board for further approval at the shareholders meeting the increase in the Company capital of BRL500 million totaling now BRL1 billion. Such increase would be carried out with the issuance of new common shares with no fair value distributed to shareholders free of charge as bonus shares in the proportion of one new bonus share for each five common shares.

The 20% bonus share will be attributed to shareholders on April 29. From such date Cielo's share accounting will be more than 786 million shares. As we mentioned since the close of last year, financial volume for the market as a whole should grow between 15% and 18% in 2013.

For Cielo we expect growth below the market as the start of the year we are still seeing the migration of accounts lost in mid-2012. We believe according to information that we have today that in two years new players including, Santander, Banrisul, Elavon, Global Payments will have between 15% and 20% of total markets.

The dynamic we expect for financial volume, pricing and operating expenses will reflect into earnings growth for Cielo in the range between 7% and 10% for this year.

Finally, regarding planned investments in POS acquisition, we will remain in line with the level you saw in 2012, in other words, between BRL250 million and BRL300 million. Despite the new competitive and challenger environments, Cielo will continue to focus on profitability as we always have and we are confident that we will deliver.

Thank you for your attention. Now we are ready to take your questions. Operator, please.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.
(Operator Instructions)

Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have a couple of questions. Just wondering, you provided a very detailed explanation of why the costs were higher by splitting out Merchant e-Solutions. I'm just wondering why you didn't provide the entire pro forma or standalone business for -- the standalone financial statements for both companies. It would have been easier to assess the evolution of Cielo on its own.

So the question is just as you provided for cost, can you tell us on the revenue side what was the impact of Merchant e-Solutions? Your revenues grew I believe 32% or something year-on-year. What would it have been without Merchant e-Solutions? That's the first question.

The second question is unfortunately you are not disclosing prices anymore but can you give us a sense on what is the landscape for prices in the Fourth Quarter and year-to-date? Are you seeing a continuation of the same trends as we saw in the second and Third Quarter where prices were relatively stable? And what is the outlook for pricing 2013? Thank you.

A - Clovis Poggetti {BIO 16529642 <GO>}

Hello, Jorge. It's Clovis. I hope you are better. Regarding your first question, yes, we have an explanatory note in our financial statements, explanatory note number three, item 3.1. In such a note you have the net revenue, you have some details for the Merchant e, which allows you to have in terms of revenue in terms of cost and also in terms of the bottom line what is the contribution from Merchant e. And excluding such a contribution what is the Cielo standalone business, how this business is evolving.

Okay, let me say you in advance, in terms of revenues, Merchant e contributed with over BRL194 million. Okay. So if you compare Fourth Quarter with the Third Quarter, you have almost BRL280 million increase, nominal increase in terms of revenues, BRL194 million coming from Merchant e, the balance is Cielo standalone.

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

Regarding your second question, Jorge, this is Romulo speaking, yes we are not needing more color about the prices but you expect lower levels for MDR's in the coming quarters. But together with the close that you are expecting for the industry in the range between 15% and 18% plus the grant[ph] fees are related to the total sales volume, plus the other

costs and expenses that you have and some market share loss, it will -- these things together allow us with the level of information that you have today to have an expectation for the total earnings for the year around 7% and 10%.

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm sorry, I don't think I got my question answered on the pricing but that's fine. Thanks.

Operator

Excuse me. Our next question comes from Mr. Craig Maurer, CLSA. Mr. Maurer, you may proceed

Q - Craig Maurer {BIO 4162139 <GO>}

Good morning, thanks. I have three questions. The first would be hopefully you can clarify your previous answer and give us directionality in terms of in the quarter where Cielo's MDR is somewhat stable.

Second, in terms of the terminals, were rent trends still, average monthly rent trends still higher due to the penetration of wireless or have those stabilized and started to move lower?

And lastly, can you just detailing your expectations for the Facebook relationship? Thanks.

A - Clovis Poggetti {BIO 16529642 <GO>}

Hi, Craig. Unfortunately, we are not giving more colors in terms of MDRs or rentals. As I just mentioned with Jorge's question, taking for example the nominal variance within the Fourth Quarter and Third Quarter, in terms of gross revenue, we had BRL280 million, BRL194 million coming from the Merchant e-Solutions.

So the balance standalone business for Cielo and no doubt this increase reflects the Christmas period and what we are saying and I hope you understand that's the most I can give you in terms of color is that we didn't see for the Fourth Quarter any change in terms of mix between commissions revenue and rentals.

In terms of your comment regarding wireless POS, yes, you are also writes. We reached in the Fourth Quarter 47% of our installed base wireless which is positive and let me take advantage here of this moment to again explain to you that let's not forget that for a wireless POS, we provide a complete solution.

The merchants are demanding this kind of equipment and the Company also has higher costs, the telecom that we provide and that we are the ones that there such accounts. To say where this goes in 2013, I can tell you for sure that it's never going to reach 100% of our installed base, okay. But it's growing not as fast as it grew in 2011, in the beginning of 2012 but it's possible that the number presents a slight increase.

And then in terms of your Facebook question --

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

Craig, this is Romulo. The initiative that we have developed with Facebook is completely new in the world. We call them Cielo linking[ph]. It's in beta test. The purpose is to do three things. Checking. And accumulate points and to redeem points. So if you have a friend in your page and you want to share the information that you are eating in a restaurant A, it will appear automatically when you slide your card in the machine of Cielo that you are in restaurant A. And more than that.

In the case of Brazil for instance, usually you have more on average 240 friends. So automatically this information will appear on the web that Craig is eating at this restaurant and besides that, the first friends that can see that are there after doing a kind of promotion at the restaurant or other point-of-sale, they can have a type of premium, they can have a discount or they can have a glass of wine at the next time they go to the restaurant.

So it allows as I said to do the checking to accumulate points and to redeem which is really good for the merchants that don't have the same penetration, the same visibility. It's a low-cost initiative in terms of marketing and is completely new in the word, is in beta test and we are developing the idea, we have the expectation that in the future it's going to be very important for us to provide a different service in this new world that we your living.

Q - Craig Maurer {BIO 4162139 <GO>}

Thank you. And if I could just clarify an answer that you had given earlier. Did you say that we should expect total earnings growth of about 7% to 10% in 2013?

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

Yes, that's right.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay, thank you very much.

Operator

Excuse me. Our next question comes from Mr. Marcelo Henriques, BTG Pactual.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Hi, guys. Thanks again for taking my questions on the English call. I have just one question, a follow-up regarding your free cash flow statement. When I compare 2012 to 2011, you seem to have a pretty good drop of around 20%. If I get the free cash flow from operations minus CapEx in 2011, it supposed to be around BRL1.5 billion. And 2012 is a bit below BRL1.2 billion which is kind of 50%, 5-0% of net income. So I just wonder if you can explain a little bit the situation free cash flow please.

A - Unidentified Speaker

Trade accountable receivables. Let's say investments on prepayment business.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Would you say this 50% is the new norm? Is this going to normalize back again in 2013? I'm just asking the question because if it's 50% of your net income and your dividend payout ratio is 70%, I'm just wondering how it could be sustainable, the 70% dividend payout ratio as your free cash flow is kind of way below that.

A - Clovis Poggetti {BIO 16529642 <GO>}

Marcelo, with regard to dividend payout, what I can tell you is that okay, according to our bylaws, minimum is 50% and this is paid twice a year every March and September and now what we are paying is 70%.

With regard to the prepayment of receivables business, no doubt that in 2012 we had a huge increase in the percentage of prepayment in terms of total credit volume in the Third Quarter reaching 13%, this increased so if we take the whole year, let's say the main responsible -- or let's say, let's take the boards where we invested, the cash of the Company mainly, one of the main points where the Company invested its cash. We don't expect business to keep running like this. It's not fair to assume that. It's almost this same statistic event that Romulo mentioned before.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. So basically what you are saying it should normalize again in 2013. I'm not sure if -- we can talk off-line as well but not sure if I understood.

A - Clovis Poggetti {BIO 16529642 <GO>}

No, that's it. Prepayment should be around this last figure.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. Okay, thanks.

Operator

Excuse me. Our next question comes from Mr. Daniel Abut, Citigroup.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. A couple of questions. One for Romulo. And one for Clovis. Romulo, first, I want to make sure that I understood correctly something you said at the end of your opening remarks when you are guiding for 15% to 18% volume growth for the industry as a whole and Cielo below that because of some regional market share erosion. Did you confirm at the end of those remarks that you expect 15% to 20% market share on aggregate for those the newcomers in two years? Did you say two years?

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

Yes. We said that between 15% and 20% in two years for in two for Santander, Banrisul, Global Payments and Elavon.

Q - Daniel Abut {BIO 1505546 <GO>}

And what's your estimate right now of what the market share and aggregate is right now?

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

Around 5%.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Romulo. And for Clovis, just to follow-up on these merchant prepayments which reached 13% as you said in the Fourth Quarter. That number I think surprised at all on the outside. If I recall comments you have made in prior conference call, you were indicating that now you were in the 10%, 11% percentage prepaid. It was going to be very difficult to keep growing that number and now it's at 13%. Do you think the 13% is sustainable or are we going to see it's running back more to the 10% or 11% level?

And second, Clovis, what role the significant increase in the average term? At least in the Fourth Quarter, went up to 61.6%. Before that, it was in the mid-50s for a number of quarters.

A - Clovis Poggetti {BIO 16529642 <GO>}

Okay. Hi, Daniel. Consider for the prepayment, let's say a range between 11% to 13%, 12% to 14% fixed it's going to be within this range. And in terms of the average term, close to the 60 days is more appropriate.

Q - Daniel Abut {BIO 1505546 <GO>}

What role the drafting fees -- there was an important increase in the number of installments transactions? What drove the average churn to be (inaudible; multiple speakers)?

A - Clovis Poggetti {BIO 16529642 <GO>}

Let's say bigger merchants. And prepaying bigger retailers with large volumes and we may also assume that with longer-term.

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

Daniel, let me add something here to give you more color. Last quarter we had some important transactions with large retailers which helped us to reach more than 13% in terms of the penetration. I have said that's something I've related to the end of the year and that we to some extent was a non-recurrent event.

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On the other hand, as Clovis said, we expect that the sale will be able to have a penetration around between 11% and 13%, between 12% and 14% considering let's say the history of the prepayment and considering also what we set on the previous calls, take into consideration that more than ever the product has been -- this has been considered as a product for the banks so they can sell not only the performance A but as well the performance sales.

On the other hand I would say that we are very happy with the performance of the product and it continues to be a very important product for us as a company.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Romulo.

A - Unidentified Speaker

Another question regarding the revenues. Remember that two reasons why the revenues was not exactly the same compared to the Third Quarter. First it was related to Selic. Selic went down. And second, the mixed between clients. We had a higher penetration with large retailers.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Romulo[ph].

Operator

(Operator Instructions) Our next question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, sorry this is a follow-up on the market share issue. Romulo, I just wanted to understand what the thinking is behind the numbers that you gave. 15% to 20% over the next two years for the new entrants. Santander has been doing this for the last 2.5 years and that they have barely 3% market share and arguably there was a lot of low hanging fruit so they were able to ramp up quickly to that number. Going forward, it should be a bit more complicated.

And then this is a bank -- this is a partnership that is operating with a bank that has 15% market share. So this is a relevant player in the banking business. I remember you always said back when the discussion about the elimination of exclusivity was relevant, you always said that it is not going to be easy for new entrants to compete because they didn't really have a bank partner.

Elavon is partnered with Citibank which has like 1% market share of banking assets in Brazil so hard to see how they win more than that. Banrisul as well they have 1% market share of banking assets and First Data just partnered up with Banco do Brasil which has not even 1% market share.

So given what we've seen from Santander which is the best player with the best platform winning 3% market share in three years, I don't really see how you get to that 15% to 20% market share loss. Honestly, I don't -- hopefully you can help me understand how you get to those numbers.

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

Thank you, Jorge for your question. I think you are right when you say that it's a challenge to have this business. We don't have a good partnership with the next.

On the other hand, let me try to make the decoupling of the number. When you said between 15% and 20% for the new entrants, Santander today if you allow me to correct a quadrant the figures that they provide, they've reached more than 4.1%, considering only Cielo, (inaudible). And Santander. They said that they would expect to reach 10% by the end of this year and of course they couldn't reach the same penetration of this level without going to large merchants. And they're doing that.

Until let's say three months ago, four months ago, we were seeing the penetration of Santander or let's say the presence of Santander was more related to a small and medium merchants. Now they're going more and more black merchants. They said, if I'm not mistaken 10 days ago in a press conference that they intend to have this penetration and to reach this penetration, 10% it should be necessary to have a higher penetration with big merchants. So I'm assuming that they're going to have 10%.

Also you have this correct figure about Banrisul. Banrisul has around 1.1%, 1.2%. So if I exclude Santander and Banrisul from the range between 15% and 12% -- 15% and 20%, you're talking about a number between 4% and 9% for the other parts, excluding Santander and Banrisul.

The penetration they already have or the penetration assuming that Banrisul will not increase just for the sake of the argument and assuming that Santander will have, let's say 10% that they had and this year specifically, we are feeling the presence more and more of Santander.

If you talk about between 4% and 9% for the other players, talking about First Data that they didn't make the announcement about the bank but Global Payments did, it is Banco (inaudible) do Brasilia. And Elavon that did with Citibank. So between 4% and 9% in two years for the other partners and I would say that maybe you have a point, maybe it's a little bit conservative but if you listen the companies directly, some of these new players are saying that they expect to have 15% in three years from now.

Which they have let's say some questions and some doubts about. I respect all of the players but I'm just trying to get a sense. So at the end of the day, I understand your point. But you are talking about -- and I assume, I don't think it's going to be very difficult for Santander to reach the 10%.

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Take a look at the last quarters, what's happening in terms of gain of market share. They are gaining around 0.5% per quarter without working with big merchants. If they continue on the same trends just for the sake of the argument, I'm just trying to understand the numbers. If they continue on the same trend and continue to work -- and begin to work more with big merchants, I think it's not something so difficult to reach the 10% penetration, even if I don't assume for 2013. I'm talking about two years from now. I'm talking about the beginning of 2015. So this is the color that I have about the share of the other players.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, thanks.

Operator

(Operator Instructions) Excuse me, our next question comes from Mr. Diego Mauro with Legg Mason.

Q - Diego Mauro {BIO 15227771 <GO>}

Hello. My question is regarding competition. Would you expect Santander to become irrational and pricing? Are they chasing the same clients you have? Or are they actually expanding the market? Could we see that they actually reach this 10%. But in order to get there, they need to cut prices significantly or are they growing the market?

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

I think, Diego, there are two things they're doing. They are expanding the market to some extent but they are also -- and by the way we also lost some clients to Santander, mainly the small let's say in the -- the entry level of the whole -- in terms of the client that you have now your portfolio.

They're behaving and you respect a lot what they do. They are more aggressive when they have the opportunity to work together with the banking account. So they provide service, they tried to provide the service of acquiring business when they have the relationship with them. When they have domicile with the merchant.

So they didn't change dramatically the behavior in terms of price strategy but as I said to Jorge, they are more -- they were not ready until six months ago, seven months ago, eight months ago to provide service for the big merchants.

Now they're ready to provide this service and they are being when I say more aggressive, I see their presence, I see their visits, I see their penetration. I see their contacts. I see them visiting the clients and not only the small and medium merchants.

Q - Diego Mauro {BIO 15227771 <GO>}

But if you look at for example the rental business of POS, are they becoming more aggressive? If you look at trade pricing, are they even up at significantly different rates as

you or we are not there yet?

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

Compared to what they were doing, they are doing the same. But compared to the price that you provide and the position that you tried -- let's say to position you have in terms of services and products, we are more expensive than Santander but in other words, with this comment, what I'm saying regarding small and medium merchants, there is nothing new compared to what they did last year. But they are trying to set up the process. Did you get the point?

Q - Diego Mauro {BIO 15227771 <GO>}

Yes. And the last question. In terms of CapEx, your guidance you mentioned is BRL250 million for 2013?

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

That's right. Between BRL250 million and BRL300 million for POS, it depends on the demands of the clients but mainly related to POS, GPRS[ph].

Q - Diego Mauro {BIO 15227771 <GO>}

Okay. And the investment is mostly wireless going forward?

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

Yes. This is for small[ph] space to --

Q - Diego Mauro {BIO 15227771 <GO>}

Thank you.

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

-- in our base around 47%.

Q - Diego Mauro {BIO 15227771 <GO>}

Thank you, very much.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Romulo de Mello Dias to proceed with his closing statements. Please go ahead, sir.

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

I would like to thank you all for your participation and we look forward to seeing you at our First Quarter results conference call. Thank you. And have a nice day.

Operator

This concludes 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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